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JAPANESE QUOTAS ON U.S. BEEF PRODUCERS

HEARING

BEFORE THE

SUBCOMMITTEE ON INTERNATIONAL TRADE

OF THE

COMMITTEE ON FINANCE
UNITED STATES SENATE

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JAPANESE BEEF QUOTAS

MONDAY, APRIL 2, 1984

U.S. SENATE,
COMMITTEE ON FINANCE,
Washington, DC.

The committee met, pursuant to notice, at 9:34 a.m. in room SD-215, Dirksen Senate Office Building, the Honorable John C. Danforth presiding.

Present: Senators Danforth, Long, Bentsen, and Baucus.

[The press release announcing the hearing; prepared statements of Senators Dole, Baucus, and Boren; and background information on the status of United States-Japan beef discussions follow:]

[Press Release No. 84-128]

SUBCOMMITTEE ON INTERNATIONAL TRADE SETS HEARING ON JAPANESE BEEF QUOTAS

Senator John C. Danforth (R., Mo.), Chairman of the Subcommittee on International Trade of the Committee on Finance, announced today the subcommittee will conduct a hearing on Monday, April 2, 1984, regarding the status of negotiations of a new agreement on Japanese import quotas for high quality beef.

The hearing will commence at 9:30 a.m. in Room SD-215 of the Dirksen Senate Office Building.

In announcing the hearing, Senator Danforth noted that the current agreement with Japan on Japanese imports of high quality beef expires on March 31, 1984. The subcommittee wishes to receive testimony on the status of the negotiations and review the effects of the Japanese quotas on U.S. beef producers.

STATEMENT OF SENATOR DOLE ON JAPANESE BEEF QUOTAS

We have been hearing a lot lately about the U.S. trade deficit, which is running at an annual rate of $120 billion. Japan accounted last year for nearly one-third of our entire deficit. Yet we are here today to review a Japanese beef quota which severely restricts our access to the Japanese beef market.

What are we to make of Japan's policy? Aside from their negative effect on our bilateral trade relationship, Japanese beef quotas mean that Japanese cosnsumers must pay exorbitant prices for beef. We are told this is necessary to protect the politically powerful agricultural sector in Japan and insure that Japan does not become too dependent on imported beef.

I do not understand why the United States is expected to cope with the political pressures generated by workers who lose their jobs to foreign imports while the Japanese Government caters to the political sensitivities of its inefficient agreicultural sector.

I also do not understand why Japan can restrict food imports to protect its self-sufficiency and national security while we become increasingly dependent on Japanese imports where our own self-sufficiency is arguably important to our national security.

Japanese arguments about the existence of American beef quotas and other import restrictions miss an important point—the United States had a bilateral trade deficit with Japan of almost $20 billion in 1983, and Japan should be doing a lot more to open its market. To argue that removing beef quotas couldn't help the bilateral trade deficit very much is to underestimate the symbolic importance of

this issue, and the potential Japanese demand for beef if Japanese consumers are permitted a free choice.

Time is running out for U.S. moderation.

STATEMENT BY SENATOR MAX BAUCUS, SUBCOMMITTEE ON INTERNATIONAL TRADE, FINANCE COMMITTEE

Thank you, Mr. Chairman.

I commend you for holding these hearings. They give us an opportunity to explore an important issue at a critical time.

Just two days ago, the U.S.-Japanese agreement on Japanese beef imports expired. Despite seemingly endless rounds of bilateral talks, and the best efforts of our negotiators, the Japanese have repeatedly failed to offer more than token increases in their beef import quota.

Rather than accept these token increases just for the sake of having an agreement, our negotiators stood their ground.

GENERAL BACKGROUND

The Japanese beef issue is an important symbol of a greater problem we have with Japan.

Last year the U.S. trade deficit with Japan was an astonishing $19.3 billion. Analysts agree that a major factor contributing to this deficit was the high value of the dollar. But there are other important factors as well.

One way Japan has achieved this significant trade advantage over the United States has been by maintaining a system of quotas, tariffs, and other barriers to imports of American products.

The Office of the U.S. Trade Representative has noted that:

A widespread perception persists among Japan's trading partners . . . and not incorrectly, that the Japanese market remains relatively less open to foreign suppliers when compared to access for Japanese goods and services to their markets.

JAPANESE BEEF IMPORT BARRIERS

Some of the most imposing barriers block imports of one of America's most competitive products: beef. These barriers take two general forms.

The most straightforward barrier is the beef quota system. All beef imports are subject to this system. Designed to protect the Japanese cattle industry, the quota now permits only 30,800 tons of high quality beef imports per year. America is the world's leading producer of high quality beef, and our exports to Japan under this quota represent the equivalent of one good ten ounce American steak, per year, for each Japanese consumer.

The second barrier is a web of additional tariff and nontariff restrictions. Besides the quota, our high quailty beef is subject to a 25-percent tariff, an artificial pricing system, procurement by an exclusive importing agent, and a web of complex licensing requirements. By the time our steak hits the Japanese retail market, the same pound of boneless American sirloin that costs a Montana consumer $3.50 costs a Japanese consumer $14.15.

THE UNITED STATES-JAPANESE BEEF AGREEMENT

During the Tokyo round of multilateral trade negotiations that concluded in 1979, the United States and Japan signed a 5-year bilateral agreement with specific provisions governing our high-quality beef exports to Japan. Under this agreement, Japan agreed to gradually increase the quota for high quality beef from about 16,000 tons to 30,000 tons. Japan further pledged to negotiate "on ways to further expand the importation of high quality beef in 1984 and thereafter to the mutual benefit of both countries."

In return, the United States agreed not to invoke remedies under United States and international trade laws.

This bilateral agreement was hailed by both sides as fair and as a good step towards a more mature United States-Japan trade relationship.

Talks designed to replace this agreement with a more liberal agreement began in earnest several years ago. The negotiations proceeded slowly, and our concessions were not met by equal ones from the Japanese. By mid-1983, it became apparent that the Japanese needed special prodding if the impasse was to be broken.

THE SENATE'S CONCERN

The Senate already has indicated its concern about these issues.

On July 14, 1983, I and 51 other Senators sent a letter to Japanese Prime Minister Nakasone. This letter said that Japan's barriers to imports of U.S. beef remain one of our most important bilateral issues. It concluded by asking the Japanese to join us, in the spirit of free trade, "in reaching a new agreement liberalizing the treatment of American beef."

And on October 31, 1983, we approved by a vote of 92 to 6, my resolution expressing the sense of the Senate that "the U.S. negotiators should insist that Japan dismantle all nontariff barriers to imports of beef" and that "if negotiations do not result in satisfactory progress toward the dismantling of all nontariff barriers the U.S. trade representatives should seek appropriate relief under United States and international trade law."

Despite passage of that resolution, Japan's negotiators refused to offer reasonable concessions.

A question of fairness

Mr. Chairman, our negotiators have been tireless in their efforts to negotiate a mutually acceptable agreement. But they have refused to capitulate just for the sake of reaching an agreement.

I commend our negotiatiors for standing up for America's trade rights. We must convince the Japanese that trade must be a two-way street.

We accord near free access to the goods Japan produces competitively, but they continue to resist our efforts to open their markets to our competitive products.

The Japanese claim they have the lowest tariffs of any industrialized country in the world. On average, they are correct. But their low tariffs are applicable to goods they already produce competitively. For *other* goods—agricultural products, certain high tech communications and computer equipment, satellites, forest products, etc.—the Japanese have erected and maintained an array of tariff and non-tariff barriers that are all but impenetrable.

The Japanese further argue that since they already are the major importer of American agricultural products, we should let them choose whatever mix of products they prefer. I wonder what their response would be if we requested the right to choose which manufactured goods we would prefer to import from Japan.

Mr. Chairman, we are not asking the Japanese for any special treatment. We only ask that they give us the same degree of market access for our competitive products that we give them for the theirs.

Benefits to Japan

Mr. Chairman, I do not want to leave the impression that my efforts are one-sided in terms of benefits. I acknowledge that the potential market of a half billion dollars if the Japanese beef import quota is removed is most attractive to U.S. cattlemen. And I recognize the likelihood that if Japanese consumers were free to buy American beef at affordable prices in ample quantities, the potential market may be even much greater than a half billion dollars.

But I want to emphasize that my efforts to liberalize the beef quota are supported by Japanese leaders themselves who recognize the benefits to consumers and the cattle industry as well.

I would like to quote from a policy statement issued last year by the Keidanren, the Japanese Federation of Economic Organizations:

"Japan's agricultural policy is geared toward protecting farmers, while it ignores industrial users and individual consumers of farm products. In fiscal 1982 farm subsidies totaled 2.3 trillion yen, or about 4.6 percent of the government's general account budget. But agricultural productivity has not increased in proportion to the huge amounts of government assistance, and farm product prices remain high. This situation not only makes the people's lives more difficult but also hinders, Japan's food industry from becoming as competitive as its foreign counterparts.

"Demands from abroad that Japan liberalize its agricultural trade are becoming increasingly strident. It is imperative that the nation establish an agricultural policy benefitting an open economy and obtain a stable food supply that will meet the people's needs."

I also would like to quote a letter written by Yoshiaki Iwao, a respected journalist with the Japanese newspaper Sankei Shinburn:

"We should not forget that without the export of automobiles and steel, we cannot maintain our agriculture. It is also true that Japanese agriculture, in large part,

has lost its competitiveness because of the heavy subsidies and this situation has forced an unreasonable burden on the Japanese consumer.

"The Japanese farmers and consumers should realize that Japan will have to remain a trading nation and should take the cool and realistic attitude that the demand for liberalization from the U.S. will bring with it the advantage of competitive Japanese agriculture to modernize."

As we all know, the Japanese have recently argued that America benefits from competition with Japanese imports, because it leads to structural adjustments favoring our most competitive industries. We generally have accepted this argument—and our automobile, steel, and electronic workers have suffered the pains of adjustment. But when we play the same argument back to the Japanese, they object. They say that domestic political considerations prevent them from opening up their beef market. They invoke the political power of the rural Japanese market.

America's response

Mr. Chairman, the Strauss-Ushiba agreement expired Saturday night. No new agreement has been reached.

This is frustrating and disappointing.

As I understand it, U.S. negotiators have gone more than halfway. But the Japanese negotiators have not. They have refused to make reasonable concessions.

At this point, we must determine how to respond. At a minimum we must assert our rights under international law. As you know, bilateral agreements supercede our rights and obligations under GATT. For this reason, we had no recourse to GATT as long as our bilateral beef agreement with Japan was in force.

Now that this agreement has expired, our rights under GATT entitle us to initiate dispute resolution proceedings. The Japanese beef import quota is clearly a nonsanctioned quota that violates Article 11 of GATT. There is little doubt that if necessary, GATT will rule that the quota violates the substance and principles of GATT, and will justify compensation if the quota is not removed.

GATT claims, however, can be slow, tedious, and do not directly redress the problem at hand. Compensation need not imply a liberalization of the beef quota.

For this reason, I have taken this response one step further by linking my vote on domestic content legislation to resolution of the beef issue. I remain firm in this commitment and I urge other Senators to join me.

I believe we need to look into other possible responses as well. I welcome the opportunity to do so here this morning.

CONCLUSION

Mr. Chairman, America's response must be strong and unwavering. The Japanese must know we will not spare any effort to end unfair Japanese trading practices.

It is my fervent hope that this response will not have to be upgraded to actual retaliation.

Only the Japanese can prevent this from happening.

They must now show us convincingly that they are indeed committed to a two-way trading relationship based on the principles of fair trade and governed by the spirit of fair trade.

STATEMENT OF SENATOR DAVID L. BOREN ON JAPANESE BEEF QUOTAS

Mr. Chairman: I am deeply disappointed that Japan has once again decided that it would rather not play fair in the international trade arena. By refusing to permit the U.S. to export more beef to them, the Japanese have violated some very basic trade laws of the General Agreement on Tariffs and Trade (GATT). The U.S. has no choice but to pursue immediate remedies under the GATT and possibly retaliate against certain imports from Japan.

The Japanese continue to force America's cattlemen to bear the burden for protecting Japan's inefficient agriculture industry. They deny U.S. beef producers the same treatment that America routinely accords Japanese manufacturers. The Japanese beef quota that expired Saturday was so small that it permitted U.S. imports equivalent to only one half pound of beef per Japanese citizen in an entire year. The quota increase that the Japanese rejected would have amounted to about 2.5 more ounces of beef per person.

In addition to their quota system, Japan has obstructed U.S. beef exports through a variety of tariff and non tariff barriers. Japan assesses a 25 percent (cif) import duty on U.S. beef imports. The average ad valorem duty on Japanese products entering the U.S. is only 2.5 percent. One especially frustrating example of non tariff

barriers is the Japanese policy of only purchasing meat from Japanese approved foreign meat packing facilities. Their standards of certification are so absurd that of the more than 6000 federally inspected meat slaughtering and processing facilities in the U.S. as of 1981, only 20 plants have been given the Japanese seal of approval.

We must initiate a wholesale reassessment of our trade policy towards Japan. The beef issue is a symptom of the fundamental problem in our trade relations with Japan. They expect more and more access to our markets while they obstruct America's ability to sell in Japan. Our $20 billion trade deficit with Japan attests to this point.

Since negotiations don't seem to be effective in bringing about a change in Japan's duplicitous trade policies, we should pursue more immediate results that the Japanese can understand. We must pursue the legal remedies that we are entitled to under international law but should also consider selective retaliation against certain Japanese imports. The European Community and China have demonstrated that selective retaliation has a place in today's trade relations. The Japanese have an obligation to make their markets more accessible to us. We owe it to ourselves to make them fulfill these obligations.

Senator DANFORTH. This hearing was suggested by Senator Baucus, who has expressed an interest which is shared by many of us in the Congress as to the quotas that Japan has on the importation of beef from the United States into their country.

Everyone who looks at the newspapers is aware of the fact that we in the United States have a growing trade deficit; it was about $70 billion last year and is expected to go well over $100 billion this year. We have had a $22 billion trade deficit with one country alone, and that is Japan. Our markets have been open to what Japan produces. Japan has taken over substantial portions of major markets in the United States—television, automobiles—and yet where the United States is competitive and should be competitive, namely, in the production of beef, we find that we do not have equal access to the Japanese markets. This is very difficult to explain to the American people. They want to know why.

This past weekend I was out in my State, and working people who felt that their jobs were threatened by imports were asking me, "How can this be? How can it be that we are losing jobs and yet, where we are competitive, we can't avail ourselves of markets of other countries?"

There has been a protectionist wave in the United States. Some of us have been trying to withstand that protectionist wave and to take a position that we are still for free trade, that we want free trade to be fair, and it just is not fair if we can't have access to other markets as good as other countries have to ours.

I have had an interesting experience, and I suspect everybody in this committee has had the same experience. That is, I have been receiving postcards and telegrams—not only from my own constituents but from people in Japan. I received last fall over 1,300 postcards from Japanese, and last week several dozen telegrams from Japanese, saying "Please don't liberalize restrictions or force the liberalization of restrictions on U.S. beef going into Japan." I receive a lot of postcards, and I'm sure Senator Baucus receives a lot of mail and a lot of phonecalls about a lot of different issues; but I don't receive very many from people in other countries saying that the United States shouldn't try to do business.

This hearing serves a very useful purpose, because it is informative. We want to know. We want to know why the U.S. markets should be open and the Japanese markets should be closed. Maybe there is some explanation for this. Maybe it is the natural role for

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the United States to be a kind of a fall guy. And if it is, let's talk about it and get somebody to try to explain to the American people why we should be a fall guy.

We have had serious problems in American agriculture and are having them right now. Families that have had farms for generations are now having to sell out. Why can't they sell what they make on international markets? Why should they be shut out? Why should we lose on both ends—lose to imports and lose because we can't export?

And, finally, what are our trade laws for? This is what I'd like to find out from the administration witness. What's GATT for? Is it just a waste paper? Are we involved in endless gabfests with other countries, or do we have an agreement which is an enforceable agreement, with a mechanism for enforcing it? And if GATT is to be enforceable and there is to be a procedure for enforcing complaints on unfair trade practices, why don't we use it? Why isn't this matter before the GATT? Why don't we start the legal mechanism for retaliation against these unfair trade practices? Maybe there is an explanation for that; I haven't heard it yet.

Senator Baucus.

Senator BAUCUS. Thank you very much, Mr. Chairman.

I commend you for holding these hearings. As you have said, they give us a good chance to explore a fundamental question. What we want to know is: what's going on here? Is the United States the fall guy? Does GATT make any sense or is it a worthless piece of paper?

The specific issue we are addressing today is the system of beef import quotas that Japan is imposing on the United States. The quota system has been in place for over 20 years. Currently, it lets U.S. cattlemen sell about one small steak per Japanese citizen per year. Simply put, the quota system is unfair. It protects inefficient Japanese beef producers at the expense of efficient American producers, and it violates both the letter and the spirit of the GATT.

For years we have been insisting that Japan dismantle its quota system; for years the Japanese have refused, telling us that domestic and political pressures in Japan make that impossible.

The last time the issue came up was in 1978, when the Strauss-Ushiba Agreement was signed. At that time, we Americans relented. We agreed to withdraw our demand that Japan dismantle their quota system, and in return Japan agreed to gradually increase the quota and pledged to negotiate "on ways to further expand the importation of high quality beef in 1984 and thereafter, to the mutual benefit of both countries."

The Strauss-Ushiba Agreement expired Saturday night. For months our two countries have been trying to negotiate a new agreement. During these negotiations, U.S. negotiators have gone more than half-way. The Japanese, in contrast, have remained inflexible. They have refused to make the reasonable concessions necessary to reach a new agreement. As a result, the negotiations failed last Saturday.

Mr. Chairman, I am reminded of a Japanese proverb. It says: "The sack of a man's patience is tied with a slipknot." Our patience is running out. If a system of international comparative advantage is to work for our countries' mutual benefit, trade must be

a two-way street; but the Japanese have created their own brand of comparative advantage that works only in their favor. That's why the negotiations failed, and that's why, so far, there is no new agreement to replace the Strauss-Ushiba Agreement.

Now America must respond—quickly, forcefully. At a minimum, we must protect our rights under international trade law. Japan's quota system violates the letter and the spirit of GATT. Our Trade Representatives must begin the process of instituting dispute resolution proceedings in Geneva.

GATT proceedings, however, can be slow and do not necessarily result in direct relief; therefore, we also must consider other appropriate responses. This hearing gives us an opportunity to explore the possibilities.

In conclusion, Mr. Chairman, I remain a good friend of the Japanese people and of the Japanese Government; but they must learn that we will spare no effort to eliminate unfair Japanese trading practices.

I am optimistic that they will learn this soon and that we will reach a mutually acceptable new beef agreement. Then American cattlemen can change their slogan from "We have a beef with Japan," to "We have beef for Japan."

Senator DANFORTH. Thank you, Senator Baucus.

The first witness is Mr. Donald Nelson, who is the Assistant U.S. Trade Representative for Agricultural Affairs and Commodity Policy.

STATEMENT OF DONALD M. NELSON, ASSISTANT U.S. TRADE REPRESENTATIVE FOR AGRICULTURAL AFFAIRS AND COMMODITY POLICY

Mr. NELSON. Good morning, Mr. Chairman, Mr. Baucus.

I have with me today Bryant Wadsworth, who is the Assistant Administrator for International Trade Policy, Foreign Agricultural Service of the Department of Agriculture. Mr. Wadsworth, like myself, has been involved in all of the negotiating sessions that we have had with the Japanese over the last 18 months and is prepared to supplement the answers to any questions that you gentlemen may have.

I have prepared a statement, Mr. Chairman, but because of the uncertain nature of the agreement and the negotiations it was only submitted this morning. I can submit that for the record and just highlight it, if that would be acceptable.

As Mr. Baucus said, the agreement which was called the Strauss-Ushiba Agreement, negotiated in 1978, did expire on Saturday night. In that agreement there was a provision that called for the beginning of negotiations toward the latter part of the life of that agreement to determine the import system that would exist after its expiration. We began those talks in October 1982 at meetings I chaired. Our initial position was that the Japanese Government had had some 20 years since it had lost its GATT cover for the restrictions. That GATT cover was balance-of-payment problems—it is somewhat hard to believe that at this point. It had been 5 years since we had initially negotiated the Strauss-Ushiba Agreement,

and we had felt that the Japanese had had adequate time to prepare their private sector for an opening of that market.

We had asked for a commitment to eliminate all of these restrictions by April 1, 1984. The Japanese position was that they would never be in a position to eliminate the restrictions. Quite naturally, we reached an impasse, and the meetings broke up.

In later discussions with the Japanese at varying levels of the Government we were told that the political situation in Japan was so very difficult that it would be impossible for the Japanese Government to commit itself at that point to liberalization this month. We then modified our position to ask for a commitment that the Japanese restrictions would be eliminated on a date certain, and that in the meantime we would get substantial improvements in the areas of market access, in terms of numbers, and in the administration of the quota.

As is quite natural in a negotiation, we came out with numbers that were a little bit higher than our bottom line and were prepared to move from those as the Japanese moved from their numbers. I will tell you that we have moved, but our moves have not been matched by the other side, with the result that at this point we are quite far apart, and, as indicated earlier, we do not have an agreement.

The administration of those quotas is something of a problem, too. It is something that has been mentioned many times by the private sector people with whom we have worked very closely. The Japanese Government has the ability to control the cuts of meat that are imported in order to buy the cheaper quality cuts; they can determine who is allowed to sell into that market; and they can also have the meat stored so long that it gets freezer burn and is less acceptable to the consumer, or it loses its taste. It is still acceptable to the consumer, witness the fact that there is a large unfulfilled demand in Japan for beef.

The agreement itself covers citrus as well as beef, but the primary focus of this particular hearing is obviously on beef. We have about 26 percent of the import market in Japan. I suppose it is about 8 percent of their total consumption.

We think that the Japanese Government could be more forthcoming, could have been more forthcoming in these negotiations. The Government officials in Japan estimate that consumers are paying about 25 percent more for their food than they would have to in an open market situation; and yet, although I can't reveal the details of the negotiation, I will tell you that the Japanese Government in its offers has been so generous as to propose to allow us to export something less than 2 ounces per Japanese per year of meat increase into that market. That's hardly a quantity designed to make much more meat available or to lower their cost of living.

In my prepared statement I had indicated that at this point there were no further negotiating sessions scheduled, but this morning we received a message from Tokyo that the Minister of Agriculture is leaving Japan tomorrow and will be here tomorrow night, and it is possible that we could have negotiating sessions on Wednesday and Thursday. I should say that we are quite far apart.

As to possible further actions, the Trade Policy Committee will be meeting at 11 o'clock to determine what courses of action are open to us.

I know that it has been suggested by Members of the Senate that it would be appropriate to institute formal GATT proceedings. That is very much a possibility. I should say here that we do not consider the GATT process to be contentious; we think that it is a way in which trading partners can resolve differences and in which we as a government can preserve our international trading rights. And it is one that has been actively discussed; but I would not prejudge the outcome of that meeting.

Perhaps at this point it would be useful to ask for any questions you gentlemen might have.

[Mr. Nelson's prepared statement follows:]

TESTIMONY OF DONALD M. NELSON, ASSISTANT U.S. TRADE REPRESENTATIVE

Good morning, Mr. Chairman. It's good to be with you this morning to discuss with you and the members of the Subcommittee the matter of our negotiations with Japan on beef and citrus. I would like to bring you up to date as much as I can.

The agreement that expired this past weekend, usually referred to as the Strauss-Ushiba Agreement, called for consultations toward the end of the covered period on the import system that would exist after April 1, 1984. We began the negotiating process in October 1982 at talks that I chaired. Our position at that time was that we expected the Japanese to agree to eliminate their restrictions upon expiration of the agreement. Their position was that they would never eliminate the quotas. Naturally, the meeting ended in stalemate.

The Japanese thereafter made a case that their political problems were so great that immediate liberalization was out of the question. We recognized their difficulties and, consequently, in later negotiating sessions we modified our position to one that called for a commitment to liberalization on a "date certain" and a substantial improvement in both the quantities involved in the quctas as well as in their administration. It was, and remains, our feeling that if we are being asked to compromise on a matter of principle—the right to unimpeded access to the market—the Japanese should make it worth our while.

As is appropriate in a negotiation, we came in with numbers that were above those that we would consider acceptable, that is, above our "bottom line." Indeed, in the process of the negotiation we have moved away from our original position in a substantial way, but our moves have not been matched by the other side. The result is that, to date, the Japanese offers are well below those we consider acceptable.

I should say at this point that throughout the process we have maintained close contact with representatives of the U.S. industries concerned. This has been vitally important not only for the numbers we are discussing but for the other aspects of the trade involved.

The administration of the quotas themselves has been a source of great concern to our exporters and potential exporters. We have heard of numerous abuses by the Japanese that we have sought to have corrected through the negotiating process. And we have watched with dismay the operations of the Livestock Industry Promotion Corporation, the quasi-governmental organization that controls the importation and distribution of beef. The LIPC, which had a gross profit of $106 million in 1982, has the power to force the purchase of less desirable cuts of meat, the right to say who can bid on tenders to sell in Japan, and the ability to force storage of beef for so long that it deteriorates in quality. We would like that power curbed.

We have made some progress in addressing the matters of quota administration, but we still have some distance to go before we will feel that the potential for abuse has been eliminated.

By way of background, the recently expired agreement was signed December 1978 and provided for the enlargement of quotas on fresh, chilled, and frozen beef, on fresh oranges and orange juice, and on grapefruit juice. Our interpretation is that it also called for the elimination of the import quota on grapefruit juice on April 1, 1984—yesterday.

The quota on fresh oranges was gradually increased to the current level of 82,000 metric tons, that for orange juice to 6,500 tons, and that for grapefruit juice to 6,000 tons. The global quota for beef, that is, the quota for almost all beef, is 141,000

metric tons, while that for the high-quality beef has been increased to 30,000 tons. The greatest percentage of that we export qualifies as "high-quality."

It is difficult to do an accurate calculation of the value of the trade covered by the agreement because of the difference in the calendar and fiscal years and because some categories of imports include both quota and non-quota items. Our best guess, though, is that in 1983 our exports were $220 million, with beef making up about $160 million, fresh oranges $52 million, orange juice $3 million, and grapefruit juice $5 million.

It is even more difficult to assess the potential for trade in an open-market situation, since there has never been one for our products in Japan. If, though, we compare the Japanese market with those in Korea, Taiwan, and Hong Kong, where certain similarities exist, I think it is certainly possible that in the first years of liberalization we could expect $650 to $800 million in trade in these products with the potential to go well above one billion dollars as consumer tastes develop and as companies begin to promote the products more.

The Japanese recognize that we have enormous potential there but always note that even dollar values like these will not balance the trade deficit. They obviously miss the point. The point, as Vice-President Bush has said, is fairness.

I should note that on a per capita basis the U.S. imports 8 pounds of beef, while Japan allows in only 2.6 pounds. Japan points to the fact that it imports 30 percent of its consumption of beef—by the way, we supply about 26 percent of the 30 percent, or less than 8-percent of total imports. We have no way of knowing what actual consumption might be if the consumer were allowed to make choices.

In that regard, it has been estimated by Japanese officials that the consumers there pay 25 percent more for their food than they would under a free-market situation. Yet their government has said that we should be allowed to supply only that portion of their "demand" that cannot be supplied by domestic producers. The "demand" is determined by some bureaucrat, not by the market. I cannot discuss the details of our negotiations, but I can tell you that the Japanese offer on beef amounts to an annual increase in market access of less than 2 ounces for each and every Japanese. Such a minor increase in availability would not be likely to do much to lower their food costs!

As you know, the agreement expired at midnight on Saturday and has not been renewed. To my knowledge, no further talks are scheduled, so we are now faced with a decision as to how to proceed.

The Trade Policy Committee will be meeting later today and will be considering a number of possibilities. I know that some of you have urged the initiation of proceedings within the General Agreement on Tariffs and Trade. That is under active consideration. I should say here that we consider the GATT process as a routine, non-confrontational way to resolve differences between trading partners and to protect our international trading rights.,

Mr. Chairman, I hope that this summary will be helpful and would be willing to try to respond to questions that you and the Members might have. Thank You.

Senator DANFORTH. Thank you, Mr. Nelson.

I want you to be out of here well before the 11 o'clock Trade Policy Committee meeting, because I would hope that you would relay some input from this subcommittee.

Mr. NELSON. I will do that.

Senator DANFORTH. I want to tell you what I think we should do. It is something I learned when I was a law student: "If you want to get somebody's attention, sue them." I mean, to ask to negotiate when you are in the right and the other guy is in the wrong is a very weak thing to do.

I would not meet with the Agricultural Minister when he comes in here this week if I were the administration. I would say, "I'm sorry, we have other things to do—namely, prepare our GATT case." And I would proceed with the GATT case.

I think that our position with Japan has been one of pleading, complaining, and begging, and that is no way for us to act, and it is demeaning to both parties—to the United States and the Japanese—for us to be constantly pleading and begging for a few ounces. If they want to keep our beef out, let us pursue our reme-

dies under GATT. Why should we be involved in their political process? They say they have political problems. Fine. What are we supposed to do about it? What would they like to do about our political problems? What would they like to do about our farmers who are complaining? We've got political problems, too. I would think that in an election year in the United States the President of the United States would have great political problems with American farmers; what do the Japanese intend to do about that? Do they intend to alter their policies and doctor their national interests in order to satisfy the political needs of President Reagan? I haven't seen that.

I don't think that we should be trying to involve ourselves in their internal political affairs, and I don't think that they should in ours. We should be proceeding in a businesslike fashion, and the businesslike fashion is to proceed under GATT. And I would hope that that's what the Trade Policy Committee is going to decide at 11 o'clock today.

Now, can you tell us why we are not proceeding under GATT? Why are we continuing this endless dance of negotiations with the Japanese?

Mr. NELSON. This will be the first Trade Policy Committee meeting since the agreement expired Saturday night. We haven't had much time to respond.

But I should tell you, sir, that the GATT process—which, if we are to have finished quickly, must begin very quickly, because of the interminable summer break that the GATT takes——

Senator DANFORTH. Today.

Mr. NELSON. We can begin that process, in which the first step, in effect, is asking for consultations, formal consultations—you have to get your ticket punched along the way. And if in the interim, while we are proceeding within the GATT context, we reach an agreement that is satisfactory to both sides, we can terminate that process. It is not inconsistent to proceed on both tracks. But that may very well be the outcome of today's meeting.

Senator DANFORTH. You know, there is this terrific wave of protectionism. It is present in the Congress and it is present throughout the country.

Mr. NELSON. Yes, sir, I feel that, too.

Senator DANFORTH. And the one friend that the free traders have is the farmer. The farmer is the last bastion, really, of free trade in the United States, and it seems to me that what we do with respect to beef is essential if we are going to keep that last ally of free trade.

Senator Baucus?

Senator BAUCUS. Thank you, Mr. Chairman.

I think you hit the nail right on the head. I want to followup by showing why Japan's beef quota is inconsistent with free trade principles.

First, Mr. Nelson, would you explain to me, in your judgment, whether Japan's beef quota violates GATT?

Mr. NELSON. Yes, sir. It becomes very esoteric, but essentially: In order to justify the maintenance of import restrictions under article XI of the GATT you have to have in place a program that limits your own production. In fact, the Japanese have a program

in place to encourage their own production. This is not only true for beef, it is also true for the other products covered by this agreement. There is no question in our mind that they are in violation of their international obligations.

Senator BAUCUS. Well, I would like to follow that up. Article XI of GATT states that "No quotas shall be instituted or maintained on the importation of any product to the territory of another GATT member." I know that there are exceptions, and certainly bilateral agreements are exceptions, but we don't have a bilateral agreement now, it expired Saturday.

Mr. NELSON. That's correct.

Senator BAUCUS. Therefore, it is clear that Japan is in violation of article XI right now.

Mr. NELSON. That is correct.

Senator BAUCUS. And it is on that basis that the administration may file a GATT complaint in Geneva?

Mr. NELSON. That is correct.

Senator BAUCUS. I would like to join Senator Danforth and strongly urge the administration to file that complaint. When the Trade Council meets at 11 today, I urge you to tell the Council members that this Senator, the chairman of the subcommittee, and I think the entire Senate, believe that the administration should file that complaint.

At this point, also, I would like to explain another reason why I think the administration should file a complaint. Within Japan itself there are many people who feel that the beef quota system is improper and is poor public policy. For example, Keidanren, the Japanese Federation of Economic Organizations, a major Japanese association of businesses recently said:

> Japan's agricultural policy is geared toward protecting farmers, while it ignores industrial users and individual consumers of farm products. In Fiscal 1982 farm subsidies, Japan totalled 2.3 trillion yen, or about 4.6 percent of the government's general account budget. But agricultural productivity has not increased in proportion to the huge amounts of government assistance, and farm product prices remain high. This situation not only makes the people's lives more difficult but it also hinders Japan's food industry from becoming as competitive as its foreign counterparts.
>
> Demands from abroad that Japan liberalize its agricultural trade are becoming increasingly strident. It is imperative that the nation establish an agricultural policy benefitting an open economy and obtain a stable food supply that will meet the people's needs.

I would also like to quote from a Japanese journalist who says:

> It is * * * true that Japanese agriculture in large part has lost its competitiveness because of the heavy subsidies, and this situation has forced an unreasonable burden on the Japanese consumer.

He goes on to say that Japanese farmers and consumers should realize that Japan will have to remain a trading nation and should take the cool and realistic attitude that the demand for liberalization from the United States will bring about the advantage of competitive Japanese agriculture to modernize.

So many Japanese are themselves saying that liberalizing trade will help Japanese agriculture; it will help it modernize. We hear that argument here in America; we hear it with respect to potential arguments to cut back on imports to the United States. As you know, the counterargument is that we should modernize. It seems

to me that the same holds true for Japan; Japan, too, should modernize.

I have also talked to people from MITI, the Ministry on Industry and Trade in Japan, and they tell me, too, that Japan should change its ways and cut back on the subsidies for agriculture.

I talked to members of the Japanese Diet, who represent districts in Tokyo. They also think that Japan's beef quota is wrong, because their constituents, consumers in cities, want American beef at lower prices.

So it seems to me that, because of the strong opinion within the country of Japan, we should also encourage the Japanese Government to further liberalize.

Mr. Nelson, I think you have done a good job. I know that it has been a trying experience for you to negotiate on this tough issue, and I know that it has been an arduous process that has taken a long time. But I want to commend you for sticking up for our rights. Many people think we Americans have rolled over too easily in the past, that we have been the "fall guy," and haven't stood up for our rights enough. But I think you and the other members of our negotiating team are beginning to stand up more for America, and properly so.

We are not trying to take advantage of anybody else; we are just trying to stand up for our rights. and not be taken advantage of. And I think you have done a very good job in that regard.

Mr. NELSON. Thank you, sir.

Senator BAUCUS. Let me ask you a point about timing.

Mr. NELSON. Could I make a point first?

Senator BAUCUS. Sure.

Mr. NELSON. I think you have made an excellent point there, and that is, we are not asking for a favor, we are asking for our right to unimpeded access to that market. We have that right. If they ask us to take anything less than that, it is incumbent on them to make it worth our while. We should not be in a position of asking them to do us a favor, and we have not been in that position.

Senator DANFORTH. That is exactly why you should proceed with the GATT case, and let them be the moving party in trying to negotiate rather than the other way around.

Senator BAUCUS. On that point, too, I would like to remind Mr. Nelson of the resolution we passed in the Senate by a vote of 92 to 6. In the final paragraph, that resolution states:

> Further, it is the sense of the Senate that if negotiations do not result in satisfactory progress toward the dismantling of Japanese barriers to imports of beef by the time the current Bilateral Agreement expires, USTR should seek appropriate relief under U.S. international trade law.

The vote was 92 to 6. I think it speaks to this issue.

Mr. NELSON. I believe that was helpful, sir. It showed a solidarity between the Congress and the administration on this issue that was useful.

Senator BAUCUS. This reminds me, too, of another point. As you know, I have been trying to convince the Japanese to make some reasonable concessions on this issue. As a result, I have received many letters from American businessmen in Japan. They say, "You've got to stand up for your rights, because otherwise the Jap-

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anese Government is not going to, out of the goodness of its heart, do what it knows it should do." The exact words are, "The only language they understand is power."

So that buttresses the chairman's point that we should not be at all reluctant to invoke our international legal rights by filing a GATT complaint.

Even then, we can still reach an agreement. After the GATT complaint is filed, it is still possible to engage in bilateral negotiations, isn't it?

Mr. NELSON. Indeed it is, sir.

Senator BAUCUS. What would happen if, during the next two or three weeks, even after a GATT complaint is filed, you reach an agreement? What effect would that have on the GATT filing?

Mr. NELSON. Well, presumably, if the agreement is sufficiently satisfactory, we would cease our complaint.

Senator BAUCUS. So the two are not mutually inconsistent?

Mr. NELSON. No, sir.

Senator BAUCUS. It is very consistent to go ahead and file a complaint, and at the same time still negotiate with Japan. And if we reach a satisfactory agreement, we can then withdraw the GATT filing with the GATT.

Mr. NELSON. That is true. As I indicated earlier, sir we don't believe the GATT process is a confrontational-type process; it's a way of resolving a dispute through procedures that are set forth and have been in place for a number of years. It would not be inconsistent to follow both of those paths.

Senator BAUCUS. I also appreciate the point you make that, in effect, a 1,000-ton a year increase in Japanese beef imports amounts to about one-quarter of an ounce of beef per Japanese consumer per year. A 4,000-ton increase amounts to about a 1 ounce of beef per Japanese consumer per year.

Now, it is my understanding that Japan's goal by the year 1990 is to have the world's highest standard of living. Given that fact, it seems that an increase of a couple of ounces per year per person can certainly be accommodated. And an increase of beef imports into Japan does not displace other Japanese producers. They can still produce beef; but it seems to me that the Japanese consumer would want to eat Japanese beef and also imported beef.

Thank you very much, Mr. Nelson.

Mr. NELSON. Thank you, sir.

Senator BAUCUS. And thank you, Mr. Chairman.

Senator DANFORTH. Senator Bentsen has come in, and I know he will have a statement or some questions to ask you; but let me just say one thing in response to your response to Senator Baucus.

I would hope that the filing of a GATT case would not simply be viewed as the stalking horse for another ounce or two. And it seems to me that the reason for filing a GATT case is to make sure that justice is done, and another ounce or two, or three or four, per person isn't doing justice.

It seems to me that if the Japanese want any restriction on American beef or any restrictions on American citrus, there should be compensation for those restrictions, dollar for dollar.

So I would hope that if we proceed with the case it would be for the purpose of vindicating our rights under the law, and that those

rights would be vindicated, and that they would not be washed out at some early stage, and that the filing of a case under GATT would be viewed as a significant event for the United States, not just a kind of modification of the existing posture of trying to negotiate as best we can with a recalcitrant party.

My view is, we're through with the negotiations, except as such negotiations further the total vindication of our rights. And if there are going to be any restrictions on U.S. beef—for political reasons or any other reason within Japan—let there be compensation, because there are plenty of industries in the United States which would be delighted with the opportunity to be part of that compensation. There are a lot of people in the State of Missouri who would be delighted to be part of that compensation.

So I would hope that the decision will be made and will be made at 11 this morning, that we are going to proceed to vindicate our rights under the law.

Senator Bentsen?

Senator BENTSEN. Thank you very much, Mr. Chairman. I appreciate your calling these hearings. I authored a resolution that passed the Senate unanimously in 1982 asking the Japanese to open their markets to U.S. beef and citrus, and Senator Baucus did that in 1983. And now you are seeing the trade agreement expiring, and we haven't done anything about it nor have the Japanese.

I would certainly agree with the chairman that the time for further negotiations has ended, and I think it is time for us to take action.

There are two basic actions that we can take: One, we can file a GATT case against these Japanese quotas, and I think we would be vindicated. But that would take a lot of time; I think it would stretch on into 1984 and possibly into 1985 before it could be settled. Second, we could take more immediate action. I believe that's the course that the administration ought to take. I think we ought to file a 301 case, file that kind of a complaint against these unfair trade practices. And retaliation should begin as soon as possible against selected Japanese exports to this country. I think they understand that.

The problem you run into with the Japanese is that they will talk and talk, and ship and ship, and you don't see much change. They are a very patient people, and they are some of the toughest and most able negotiators that we are up against.

We ought to do all we can—the administration should—to push the law, to push the U.S. position on this issue. That's the kind of situation where we could use the strategic trade policies of title III of the Danforth/Bentsen International Trade and Investment Act.

Now, that bill provides for annual trade estimates and trade actions to followup on those estimates, including the administration starting more trade actions on its own initiative; not just waiting for some company to take it on and that company to fear that they are going to have some specific action taken against them by the other country, but have the U.S. Government taking more of those initiatives.

Frankly, if beef exports were the only issue here, then I might urge the administration to talk tough but to settle for whatever the Japanese would give them. After all, some increase is better than

no increase. We might go from the current two hamburgers per Japanese per year—we might even get up to three hamburgers per Japanese per year. But I think the issue is a lot larger than that one. The issue is whether Japan is going to make the tough decisions in free trade, or they are not going to make them. We have seen the Europeans just this last week make some tough decisions on trade, where they weren't going to carry their subsidies to the extent that they overwhelmed international markets with tax-supported products.

I have had to make some of these decisions, Mr. Chairman. I know what it's like to go tell Texas chemical producers that Europe is going to retaliate against them because their government is protecting the domestic steel industry. I have had to do that. I know what it's like to tell Texas cotton and wheat producers that they can't export as much as they would like to to the People's Republic of China, because the PRC is retaliating against us for some of our textile import controls. I have been doing that for years.

Now, when are the Japanese politicians going to make some of these tough decisions?

Mr. Chairman, Japan must start making those decisions now, and it might as well start with the beef and citrus. Let's see how their computer producers like it when they can't sell here because of Japanese protectionism.

This negotiating charade just can't run forever. Every delay means more Japanese goods coming over, and the longer we wait to have access for our products to their markets, the more difficult we are going to find our trade imbalance with the Japanese.

I fervently hope that a speedy and satisfactory resolution of these issues can be worked out. We are the largest cattle-producing State in the Nation; the heart of the world's cattle-feeding industry is in Texas. We produce some products that I think the Japanese consumer would enjoy and at a price that would be reasonable.

I have often said what we really ought to do—I looked at some of these full-page ads running in the papers here from the Japanese telling us what we ought to do—why don't we run some full-page ads in Tokyo, and show the price of beef to the U.S. consumer in the markets here in the United States? And then right beside it, show what the Japanese housewife is having to pay for those same products. Show the price for citrus here in the Washington, D.C. markets, and then show what it is in Tokyo. Show what this kind of protectionism is costing the Japanese consumer. If they really believe in free trade, and they sure do when it comes to pushing their products here, then they ought to be accepting some of it there. I think we ought to give it some serious thought.

And don't pay any attention to the State Department telling you you might upset someone. You know, it's all right for them to come over and lobby us by running their full-page ads—I think it's time that we let their consumers understand what it costs them over there. And let's take some direct action. Let's tell them we are serious in these negotiations.

Mr. Chairman, I may get wound up here, if I'm not careful. [Laughter.]

Mr. NELSON. It sounds good to me, sir.

Senator DANFORTH. Mr. Nelson, thank you very much.

Senator BAUCUS. I think Senator Bentsen has a great idea here. You know, if sirloin costs $3.15 here, it costs $15 in Japan. That's nearly a fivefold increase. If more Japanese consumers realize how much more they are paying than they could pay if their Government permitted more imports of American beef, the Japanese Government might find it a little easier to agree to a better agreement.

In addition, I would like to emphasize Senator Bentsen's point that even the European Common Market has now begun to substantially reduce its subsidies to European farmers. That's a tough decision, but they have made it.

It seems to me that, when agriculture is as inefficient as it is in Japan, the Japanese Government should follow the lead of the European Common Market and also begin to reduce some of its subsidies to inefficient Japanese agricultural producers.

Senator DANFORTH. Mr. Nelson, thank you very much.

We have a very tight hearing schedule for the foreseeable future in the Finance Committee, but my hope is that we can work out some sort of format, whether it is an hour hearing or maybe just some kind of communication, so that the administration can explain what they are going to do; I mean, what decision they have made.

If we are not going to proceed with the GATT case, I for one would like the administration to come back here and explain their thinking.

Mr. NELSON. All right, sir.

Senator DANFORTH. Thank you, sir.

Mr. NELSON. Thank you, sir.

Senator DANFORTH. Next we have Mr. Dewey Bond of the American Meat Institute, Mr. Tom Cook of the National Cattlemen's Association, and Ms. Esther Ruud of the Montana Cattlemen's Association.

I am told that Ms. Ruud is not yet here; but, Mr. Bond, would you like to proceed?

STATEMENT OF A. DEWEY BOND, SENIOR VICE PRESIDENT, AMERICAN MEAT INSTITUTE

Mr. BOND. Thank you, Senator Danforth, Senator Bentsen.

I represent the American Meat Institute. It is a national trade association of the meat slaughtering and meat processing industry.

The institute believes in free trade. We are not opposed to the imports of meat from Australia, New Zealand, South America, or Europe; therefore, we resent very much the protective trade policy of the Japanese Government.

We believe the Japanese Government should provide for a high percentage of liberalization in its high-quality beef quota so that at the end of several years total liberalization has been achieved.

We also believe they should reduce the present duty of 25 percent of beef imports to 10 percent and have that figure bound.

We believe the Government should eliminate the Livestock Industry Promotion Corp. from administering control over the beef quotas. In addition, we feel that they should continue to maintain the present relationship between their high-quality beef quota and the present overall beef quota.

If these conditions are met, the American Meat Institute believes that the Japanese consumer and the United States livestock producer would receive great benefits as well as assisting in reducing the very unfavorable U.S. trade deficit with Japan.

We have seen press reports that the Japanese are willing to increase their quota by 6,000 metric tons. This should be considered a total insult, and it must be rejected by our Government. Our U.S. plants could produce this quantity in about 1 hour of operation, based on a recent weekly average production.

We believe our administration has done a very good job in negotiating; however, they failed to get the attention of the Japanese Government, and I really wonder whether proceeding through GATT will achieve anything further than that.

Therefore, I believe that we should do something dramatic. Perhaps we should use the same principle that they do with their Livestock Industry Promotion Corp. Perhaps we should establish a quasi-government agency called "The Automobile Industry Protection Corporation," whereby this agency would import all of the automobiles into the United States through certain specifications described by this organization, add a markup of 200 percent—as they do for our beef—and in addition a duty of 25 percent. Then they would sell these automobiles to certain selected wholesalers on a formula basis. This is the way they are treating our beef. I think only by doing something dramatic like this are we going to get the attention of the Japanese Government.

Thank you.

Senator DANFORTH. Thank you.

[Mr. Bond's prepared statement follows:]

AMERICAN MEAT INSTITUTE
Serving The Meat Industry Since 1906

STATEMENT
BY
A. DEWEY BOND
SENIOR VICE PRESIDENT
AMERICAN MEAT INSTITUTE

ON BEHALF OF THE
AMERICAN MEAT INSTITUTE

REGARDING THE STATUS OF NEGOTIATIONS OF A NEW AGREEMENT ON JAPANESE IMPORT QUOTAS FOR HIGH QUALITY BEEF

BEFORE THE UNITED STATES SENATE
COMMITTEE ON FINANCE
SUBCOMMITTEE ON INTERNATIONAL TRADE

APRIL 2, 1984

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I am Dewey Bond, Senior Vice President of the American Meat Institute and serve as staff liaison with the Institute's Export Committee. The Institute is a national trade association of the meat slaughtering and processing industry and has slightly over 400 members.

The Institute has maintained a position of free trade for meat and livestock products for many years. This is rather unique when you consider that this trade association has not opposed U.S. imports of meat from such countries as Australia, South America and Europe. At the same time we feel very strongly that other countries such as Japan and the countries of the European Economic Community should not place quantitative restrictions against the free flow of U.S. meat into their countries.

Japan is the United States' largest market for agricultural exports and also our largest market for beef. Beef is the only unliberalized meat item in Japan. Japan's beef import quota system consists of a large general quota and smaller hotel, school lunch, boiled beef, and Okinawa quotas for special purposes. The current base quota is about 135,000 metric tons of which 30,800 metric tons is high quality beef. Most U.S. beef exports to Japan consist of high quality beef so it is this quota which is of greatest interest to our exporters.

Japan encourages high cost domestic production of beef through a price support program that protects producers from foreign competition by quotas, a 25 percent tariff, and additional surcharges on individual cuts of beef.

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Most beef imports are made through the quasi-government Livestock Industry Promotion Corporation (LIPC) which then tenders the beef to wholesalers. Many exporters feel that this rigid system of distribution discourages imports by minimizing the amount of beef imported directly by retailers and processors. The beef quota system supports domestic beef prices at levels substantially higher than world prices, thereby discouraging consumption. Japan is a high cost producer of beef because of labor intensive production processes -- almost 80 percent of Japanese beef herds are under four head. Also, virtually all cattle slaughtered are grainfed to varying extents. As rural interests represented by producer cooperatives have attained strong political influence, the returns to beef producers will be kept above world levels so that domestic output goals can be achieved.

Per capita beef consumption in Japan has grown rapidly during the past two decades and is currently about 12 pounds per capita compared to 76 in the United States in 1984. Higher consumption of beef in Japan has generally been attributed to increasing incomes and a growing preference for Western foods. However, the rate of growth in per capita beef consumption amounted to less than half of the percentage increase for pork and poultry over the recent twenty year period. The reason is that Japanese beef producers have not matched the gains in efficiency made by pork and poultry producers. Accordingly, prices have risen much higher for beef than for pork or poultry. Therefore, in order to follow its policy of encouraging self-sufficiency in meat and poultry production, the Japanese Government has chosen to erect much more restrictive trade barriers for beef than it applies to pork or poultry.

The American Meat Institute strongly resents this protective policy. We believe that the Japanese Government should

1. Provide for a high percentage of liberalization in its high quality beef quota so that at the end of several years, total liberalization will have been achieved.
2. That the present duty of 25% on beef imports should be reduced to ten percent and that the latter figure should be bound. Today there would be no prohibition to the Japanese Government broadening the quota but increasing the duty.
3. That the Livestock Industry Promotion Corporation should not have control over the increased quantity of quotas.
4. That the high quality quota will continue to maintain its relationship to the total beef quota.

If these conditions are met, the American Meat Institute believes that the Japanese consumer and the U.S. livestock producer would receive great benefits as well as assisting in reducing the very unfavorable U.S. trade deficit with Japan.

We have seen press reports that the Japanese are willing to increase the quota by 6,000 metric tons. This should be considered a total insult and must be rejected by our Government. Our plants could produce this quantity in about one hour's operation based on the recent weekly average production.

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Senator DANFORTH. Mr. Cook.

STATEMENT OF TOM COOK, ASSOCIATE DIRECTOR OF GOVERNMENT RELATIONS AND DIRECTOR OF FOREIGN TRADE, NATIONAL CATTLEMEN'S ASSOCIATION

Mr. COOK. Thank you, Mr. Chairman. It seems that everybody this morning appears to be on the same wavelength, and the National Cattlemen's Association certainly is, too.

My statement was prepared last week before the negotiations were over, so I would just like to make a couple of highlights out of that statement.

We believe we do have a superior product to offer; however, Japan's restrictive quotas, high tariffs, and Government purchasing practices make United States high quality beef almost unavailable to the Japanese consumer.

We have heard virtually all of the arguments as to why Japan cannot and should not or will not import more beef. In efforts to develop a better understanding, the NCA has hosted numerous Japanese Government leaders and farm groups. We have patiently listened to their concerns, and, frankly, we cannot accept many of their arguments.

Agricultural leaders from Japan tell us their consumers have small stomachs, limited calorie intake, and traditional diet habits that are slow to change. Evidence shows that Japanese diets are already changing. We believe that consumers and not Government trade policies should influence those changes.

We are questioned as to our ability to be reliable suppliers. I can assure you that we consider Japan to be our most important export market. The National Cattlemen's Association, the U.S. Meat Export Federation, and other U.S. exporting interests do not take the responsibility of this market lightly. We will be reliable suppliers.

We work close with our Government negotiators, and we have outlined some points that we think ought to be included in the negotiations. Dr. Bond has already addressed most of them.

In addition, we believe that the negotiators should be aware of and avoid any other conceivable tariff or nontariff barrier that the Japanese would impose that would restrict or nullify gains in an increased-access agreement.

This past week, where it appeared the negotiations were at an impasse, I was asked by the press and others, "Is the NCA upset?" And, "What will be our next step?" Yes, we are upset, frustrated, and disturbed. We do not understand why the Japanese continue to be so adamant in their position. Their officials say that the United States must make more concessions, we must understand their problems. I have yet to see any meaningful concessions advanced by the Japanese. The negotiating process must be give and take on both sides.

We are, however, particularly pleased with the determination expressed by our negotiators. We have been in regular consultation with officials from USTR, USDA, the State Department, and other agencies throughout this process. For the first time we can remember, there has been a united front on this issue. Members of Con-

gress, and particularly this committee, have been especially helpful.

Attached to my statement is a resolution passed at our recent convention addressing trade with Japan. I would like to just quote from the last paragraph on our position on what would happen if nothing happened by April 1:

> We believe that the NCA should contact President Reagan, the Office of USTR, Members of Congress, to utilize whatever means available and necessary to impose an import surcharge on all Japanese imports, sufficient to overcome the present trade imbalance.

This resolution accurately reflects the attitude of the cattle people throughout the country.

The beef issue has become symbolic. We are the first to recognize that increased beef trade relative to the total picture will only make a dent in the trade imbalance. However, there must be a strong commitment from Congress and the administration to resolve our differences with Japan on the beef trade issue, or we can expect continued disappointments on the other trade matters.

Thank you.

Senator DANFORTH. Thank you, sir.

[Mr. Cook's prepared statement follows:]

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STATEMENT

OF THE

NATIONAL CATTLEMEN'S ASSOCIATION

before the

International Trade Subcommittee

of the

Senate Finance Committee

on

Beef Trade With Japan

by

Tom Cook

Director, Foreign Trade

April 2, 1984

The National Cattlemen's Association is the national spokesman for all segments of the nation's beef cattle industry -- including cattle breeders, producers, and feeders. The NCA represents approximately 245,000 professional cattlemen throughout the country. Membership includes individual members as well as 50 affiliated state cattle associations and 10 affiliated national breed associations.

On behalf of the National Cattlemen's Association, I appreciate the opportunity to present our views on beef trade with Japan before this committee.

This hearing may be very timely in respect to the status of our negotiations with Japan, or it may be after the fact. Because of the uncertainty of the status of the talks, I will address three points: first, NCA's concern over beef trade with Japan; second, NCA's position on the negotiations, and third; what we do if the negotiations fail to bring meaningful results.

We believe that we have a superior product to offer. However, Japan's restrictive quotas, high tariffs and government purchasing practices make U.S. high quality beef almost unavailable to the Japanese consumer. U.S. high quality beef exported to Japan sells for about $3.50 per pound. The Japanese consumer pays three and four times that amount.

Beef is relatively new to the Japanese diet. I recognize this, and I do not expect Japanese people to consume as much as we do. U.S. per capital consumption of beef is 48.1 kilograms per year (retail weight). In Japan it is about 5.5. kilograms per person a year. However, there is evidence that the Japanese people like beef and that they would eat more beef if it were available in larger quantities and at more reasonable prices.

Government policies in Japan dictate the amount of beef consumed. This is not right. Consumption should be determined by the Japanese consumer, with beef being available at prices determined by market conditions.

I have heard virtually all of the arguments as to why Japan cannot, should not or will not import more beef. In efforts to develop a better understanding the NCA has hosted numerous Japanese government leaders and farm groups. We have patiently listened to their concerns. Frankly, we cannot accept many of their arguments.

Agricultural leaders from Japan tell us Japanese consumers have small stomachs, limited calorie intake and traditional diet habits that are slow to change. Evidence shows that Japanese diets are already changing. We believe that consumers, and not government trade policies, should influence those changes.

We are questioned as to our ability to be reliable suppliers. I can assure you that we consider Japan to be our most important export market. The National Cattlemen's Association, the U.S. Meat Export Federation and other U.S. exporting interests do not take the responsibility of this market lightly. We will be reliable suppliers.

We respect Japanese concern for food security and self-sufficiency in the livestock sector. However, because most of the grain fed to their livestock is imported, we question the validity of this argument.

We are particularly concerned about Japanese accusations that we are trying to force Japanese farmers out of business. This simply is not the case. Competition from increased imports may cause Japanese farmers to become more efficient, which many already are striving for. We believe that our exports to Japan will fill a need resulting from increased demand and will not displace farmers.

Cattle people from throughout this country continually ask why we don't export more beef to Japan. They cannot understand why, when we import so many things from Japan, we can't export more of our beef to Japan. An increase in U.S. beef exports to Japan will not totally correct our 20 billion dollar deficit in trade with Japan. All I ask in behalf of U.S. cattle producers is the opportunity to market beef in Japan in the same way we open our markets to Japanese goods and services.

The American public may not understand all of the detail and technicalities involved in trade with Japan. However, Americans understand that, while we import everything from Japanese automobiles to television sets and cameras, we are unable to export very much beef to Japan.

U.S.-JAPAN NEGOTIATIONS

Following are five points which basically encompass what we seek in the current negotiations:

1. The NCA seeks liberalization to the Japanese market for beef. We have not discussed or released any specific figures that we would find acceptable. We believe discussion of numbers should be handled by the Special Trade Representative. From a strategy standpoint, any discussion of figures by us would probably be counter-productive.

2. The NCA would like to see the role of the Livestock Industry Promotion Corporation (LIPC) substantially reduced in the procurement and distribution of the high quality quota.

3. Any increase in the high quality quota should not come from the already existing overall general quota.

4. The negotiators should be aware of and avoid any other conceivable tariff or non-tariff barrier that the Japanese would impose that would restrict or nullify gains in an increased access agreement.

5. U.S. government officials should obtain from the Japanese, in addition to any short term agreement, a commitment to further liberalize its' market and agree to a timetable for further discussions to obtain this objective.

This past week, where it appeared the negotiations were at an impasse, I've been asked by the press and others is the NCA upset and what will be our next step.

Yes, the NCA is upset, frustrated and disturbed. We do not understand why the Japanese continue to be so adamant in their position. Their officials say the U.S. must make more concessions, we must understand their problems. I've yet to see any meaningful concessions advanced by the Japanese. The negotiating process must be give and take on both sides.

The NCA, however, is particularly pleased with the determination expressed by our negotiators. We have been in regular consultation with officials from the USTR, USDA, State Department and other agencies throughout this process. For the first time we can remember, there has been a united front on this issue. Members of Congress and particularly this committee have been especially helpful.

If the negotiations to resolve this issue fail by April 1, 1984, the U.S. government must take immediate action against the government of Japan.

Attached to this statement is a resolution adopted by the NCA at its recent convention. In this resolution we state, "Be it Further Resolved, That should the Japanese refuse to begin meaningful liberalization of their market for beef no later than April 1, 1984, NCA contact President Reagan, the Office of the Special Trade Representative, and/or members of both Houses of Congress to utilize whatever means available and necessary to impose an import surcharge on all Japanese imports sufficient to overcome the present trade imbalance."

This resolution accurately reflects the attitude of the cattle people throughout the country. We do not believe we can continue to let Japan "have its' way" on trade issues any longer.

The beef issue has become symbolic. We are the first to recognize that increased beef trade relative to the total picture will only make a dent in the trade imbalance.

If the U.S. acquiesces on the beef issue, it cannot expect any successes on the many other differences we have on trade with Japan. Although the Japanese have indicated just the opposite, it simply will not happen.

There must be a strong commitment from Congress and the Administration to resolve our differences with Japan on the beef trade issue or we can expect continued disappointments on other trade matters.

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TRADE WITH JAPAN FT-9

Whereas, For the past decade and a half the United States has made a concerted effort to persuade Japan to open the Japanese economy for foreign goods, services and investments; and

Whereas, A widespread perception persists among Japan's trading partners, including the U.S., the E.C., and others, and not incorrectly, that the Japanese market remains relatively less open to foreign suppliers when compared to access for Japanese goods and services in their markets; and

Whereas, In the face of mounting trade surpluses with the U.S. the Japanese refuse to eliminate quotas on 22 agricultural and marine products which the U.S. views as being illegal and in violation of Japan's obligations under the "GATT";

Therefore, Be It Resolved, That the U.S. negotiators seek liberalization to the Japanese market for beef. This liberalization should begin no later than April 1, 1984. In addition to liberalization any such agreement with Japan on beef should include both the binding of the Japanse tariff on beef at a nominal amount and the staged reduction of the LIPC involvement in controlling imported beef.

Be It Further Resolved, That should the Japanese refuse to begin meaningful liberalization of their market for beef no later than April 1, 1984, NCA contact President Reagan, the Office of the Special Trade Representative, and/or members of both Houses of Congress to utilize whatever means available and necessary to impose an import surcharge on all Japanese imports sufficient to overcome the present trade imbalance.

(ADOPTED BY NCA MEMBERSHIP, JANUARY, 1984)

Senator DANFORTH. Ms. Ruud.

STATEMENT OF ESTHER RUUD, SECRETARY, MONTANA CATTLEMEN'S ASSOCIATION

Ms. RUUD. Mr. Chairman, I am pleased to have an opportunity to address this subcommittee today.

I come here to speak on behalf of the members of the Montana Cattlemen's Association and the Montana WIFE. We are cattlemen and women with a proud history of growth and development in our great State of Montana.

As we are mindful of our past, we look to a future of more growth that will benefit our State as well as our country.

Much of the promise of this future centers on trade. Ten years ago to suggest that Montana look beyond Kansas City or Denver for new markets would have been unthinkable to many Montana cattlemen. Today we look to a long-term future of developing markets that includes the Far East as well as the Midwest. We, like cattlemen throughout America, look to Japan as the prime market of opportunity for the 1980's and the 1990's; but we are frustrated as we see the Japanese close the door on our fine product. Let there be no mistake, our beef is the best in the world, and it is very competitively priced. We can package or cut our beef to suit their taste, but we simply have not had the chance to serve our excellent beef to enough of our friends in Japan.

Mr. Chairman, there is something very wrong here. I can go to a Datsun dealer in Billings and buy a nice little pickup truck for an attractive price to serve my needs on the ranch; but when it comes to offering my tasty Montana beef at a very competitive price to the Japanese worker who made the pickup truck, the Japanese Government says no. This just isn't fair. We Montanans are free traders who believe in straight talk and fair play, and we had hoped that our word would be enough to persuade the Japanese that they should set aside their unfair trading practices. I guess our word is not enough.

For this reason, we Montanans believe that your subcommittee should review all options available to our Government in moving the Japanese to open their markets. This is the very least that we can do, and I hope that we need do no more.

Opening up their markets would benefit not only the American cattlemen but also the Japanese consumer and the Japanese cattlemen, for the Japanese cattle industry cannot expect to grow if it is so protected that there is no incentive or even necessity to improve their efficiency. An open marketplace will give them this incentive, and it will reduce the cost to the Japanese Government of propping up this inefficient industry.

Mr. Chairman, I come here today with a special message and an appeal from Montanans to our Japanese friends:

> Let us grow together. Let us use trade to benefit our producers as well as our consumers, and let us settle our problem as friends, mainly, not as adversaries. Let us strengthen our ties by treating each other the way we would like to be treated.

Thank you.

[Ms. Ruud's prepared statement follows:]

STATEMENT BY MRS. ESTHER RUUD, SECRETARY, MONTANA CATTLEMEN'S ASSOCIATION

Mr. Chairman, I am pleased to have an opportunity and address this subcommittee.

Today I am speaking on behalf of the members of the Montana Cattlemen's Association and the Montana women involved in farm economies (WIFE). We are cattlemen and women who have inherited a proud history of growth and development with our great state. As we are mindful of our past, we look to a future of more growth that will benefit our state as well as our country.

Much of the promise of this future centers on trade. Ten years ago, to suggest Montanans look beyond Kansas City or Denver for new markets would have been unthinkable to many Montana cattlemen. Today we look to a long-term future that includes the Far East as well as the Midwest.

Montana is well poised to serve new markets abroad. With over one and a half million head of cattle, we have the seventh largest herd in America. Our red meat production over the last ten years has averaged more than 150 million pounds annually. Our location makes Japan, South Korea and Taiwan attractive target markets.

We, like cattlemen throughout America, see Japan as the prime market of opportunity for the 1980s and beyond. Japan's own limited levels of agricultural production, high income levels, and surplus of foreign exchange make Japan a ready market for penetration. But we have been frustrated so far in our attempts to penetrate this market in a big way.

The Japanese say there is only a small market for our beef because they consider our beef inferior, or they really don't have much appetite for beef, or they don't have much appetite at all. This is all sheer nonsense.

We know the Japanese have been diversifying their diet rapidly as their income has grown. We know they like our beef because it is sold as fast as it is imported. They even sell it in their restaurants as a Kobe beef substitute. As to the small appetites they claim, we have seen how young Japanese have outgrown their parents and love American type hamburgers and other beef products in ample quantity.

So why haven't we sold more beef?

The answer is simple. The Japanese won't let us. They have barriers so restrictive they deny both *their* consumers and *our* exporters a chance to benefit from Japan's economic boom.

Mr. Chairman, we in Montana see something very wrong here. Our ranchers can go down to their Datsun dealer and be tempted by a low priced pick-up truck that is a fine vehicle. That's OK. This benefits us, and we appreciate the fruits of Japanese labor. The Japanese produce a competitive truck and should be able to market it freely.

But we ranchers in Montana also produce a competitive product. Our beef is the best in the world, and it is competitively priced. We can ship boneless sirloin to Japan and put it in retail markets for under 5 dollars a pound. Lesser cuts we can deliver for cheaper prices, and we can cut our beef any way the Japanese want it.

That same American boneless sirloin now sells in Japan for around 15 dollars per pound. Why? Because there is so much demand and so little supply, the Japanese distributors, wholesalers and retailers can command exorbitant profits. The average Japanese consumer, if we could find American beef available, probably couldn't afford it anyway.

The Japanese beef import quota and the many other barriers the Japanese have built up around imported beef are unfair, unnecessary, and just plain wrong.

The Japanese have no good reason to keep our beef imports out, and we have no good reason to tolerate this. Why should their auto workers get the benefits of our market while our ranchers are denied the benefits of theirs? Why should their consumers be denied the right to enjoy the best beef in the world?

We Montanans just don't understand why our friends, the Japanese, continue to keep our beef out. Trade needs to go both ways, or those of us who speak out for free trade will have a harder time convincing our fellow citizens who call for protectionism that they are misguided.

What can we do to convince the Japanese how strongly we feel about this issue? We Montanans would hope that our word would be enough to the Japanese. We have written letters to Prime Minister Nakasone, supported efforts of national cattlemen's groups to break down Japanese barriers, and urged our elected officials to use their best efforts to persuade the Japanese to change their policies.

Some Montanans favor tough measures, although many hope these will not be necessary. We, nonetheless, believe our government should review all options available to it in dealing with the Japanese. This review in and of itself may be the signal needed to convince the Japanese how strongly we feel.

Mr. Chairman, we Montanans are straight forward. We believe that a good product at a fair price should be able to sell itself. We believe in fair play, and we believe America should be a responsible member of the world of nations.

We are not out to destroy Japanese agriculture. We feel kinship to the cattlemen of Japan, and we wish them well in their efforts to grow. But we know from experience that free competition is the catalyst of efficiency, and as long as Japanese cattlemen are so heavily protected, they will have little incentive to improve their cattle raising, slaughtering and marketing methods. A freer market for beef in Japan may be just what the cattle industry in Japan needs to start on the path of greater productivity. Failure to open the marketplace will perpetuate high government subsidies, and low productively, while frustrating Japanese consumers and feeding protectionist forces in our country.

Mr. Chairman, I carry a powerful message from Montanans to our Japanese friends.

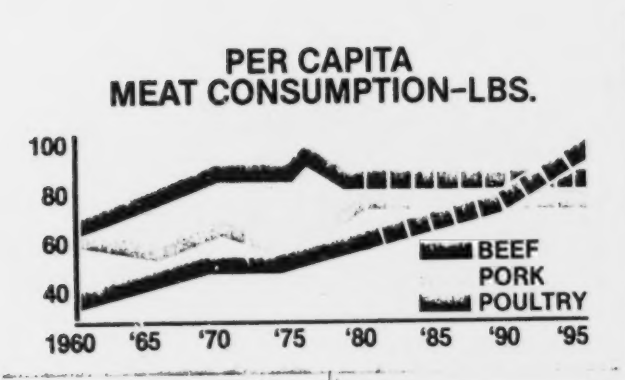
Let us grow together.

Let us use trade to benefit our producers as well as our consumers.

Let us settle our problems as friends, not as adversaries.

Let us strengthen our ties by treating each other the way we want to be treated.

Thank you.



CONSUMPTION OF MILK EQUIVALENTS IN U.S.

Year	Billion Lbs.
1973	113.2
1974	113.7
1975	114.2
1976	117.2
1977	116.2
1978	118.9
1979	121.1
1980	119.5
1981	120.6
1982	122.5

efficiency. I do not say we should increase production, because supply management is still an important consideration.

Let's look at just a few examples. In the area of swine production we market 15 pigs per sow per year. On our research farm we are able to produce 21 pigs per sow per year. We accomplish this by pushing sows to produce 2.25 litters per year rather than the national average of 1.6 to 1.8. Once we produce the baby pigs, the national average indicates that 25% will never reach market. Imagine if you were to lose 25% of the grain you produce on your farm between the combine and the market place. These losses result in the number of weaned pigs per litter averaging only 7.4.

We cannot sit back with the idea that exporting of red meat will be our salvation.

Dr. Darwin Britzman

In dairying, average milk production per cow in the U.S. is about 11,450 pounds. Yet the average of DHIA herds in South Dakota is 13,552 pounds, with some producing 20,000 pounds of milk per cow. Through the use of superior herd sires and artificial insemination, many dairy cows have the genetic potential to produce more milk. Management and nutrition are some of the limiting factors.

Twenty-two percent of the beef cows in South Dakota never produce a marketable calf. Thirteen percent of that loss is due to failure to conceive or early embryonic death. An additional 9% of the calves are lost at calving or shortly thereafter. Increasing the calf crop by 5% from 78% to 85% in South Dakota would mean an added $24 million in gross income to beef producers in that state alone. Imagine the impact if such improvements could be accomplished throughout the industry. Some producers are achieving 90% to 95% calf crops. Just the 5% increase alone would have added more than a billion dollars to the beef industry.

Once we produce baby pigs, the national average indicates that 25% will never reach market.

Once we have the calf, we can increase its weaning weight by 25 to 55 pounds and improve feed conversion by 10 to 20% with an implant. Feedlot cattle have added an extra 40 to 45 pounds with similar feed efficiency. The return on investment with this practice is 10 to 1. Yet, fewer than 50% of the beef producers in the U.S. are implanting cattle.

It is now possible that a genetically upgraded calf, one weighing 500 pounds at seven to eight months of age, could reach a slaughter weight of 1,150 to 1,200 pounds in 15-16 months. This can be achieved by putting the animal on a high-grain ration at sixty days post-weaning.

Those are but a few examples. I consider that not as criticism but as good news. There is hope, there is room for improvement. We are not at the end of the road and it will be up to you young people to implement those kinds of efficiency improvements.

JAPANESE MARKUP OF U.S. BEEF

Price to Japanese Consumer	$13.07 lb.
Hotel Markup (30%)	$ 7.69 lb.
Retailer Markup (25%)	$ 7.53 lb.
Cost to Retailer or Hotel	$ 6.02 lb.
Surcharge to Hotel or Retailer	$ 5.48 lb.
Import Expense (5%)	$ 4.91 lb.
25% Duty on Cost & Freight Value	$ 4.68 lb.
Price of U.S. Meat in Japan, Including Cost & Freight	$ 3.74 lb.
U.S. Retail Meat Price	$ 2.38 lb.
U.S. Wholesale Meat Price	$ 0.95 lb.
U.S. Farm Price for Beef Cattle	$ 0.54 lb.

Senator DANFORTH. Thank you all very much.

I understand your positions to be that you are not looking for some modest incremental improvement in Japanese imports of U.S. beef; you are looking for a major change in the rules of trade between the United States and Japan with respect to beef, and that a slight improvement that is negotiated between the two countries is not going to be satisfactory as far as you are concerned. Is that a fair statement?

Mr. DEWEY. That's right.

Mr. COOK. Yes, sir.

Ms. RUUD. Yes.

Senator DANFORTH. Senator Baucus?

Senator BAUCUS. Thank you, Mr. Chairman.

First of all, I would like to thank you very much, Esther, for all the great work you've done with WIFE, the Montana Cattlemen's Association, the Montana Stock Growers Association, and all the livestock groups in Montana. I think you have done a terrific job in sensitizing not only Montanans but all Americans to the unfairness of the present trade arrangement between the United States and Japan. You should be highly complimented for what you have done.

Ms. RUUD. Thank you.

Senator BAUCUS. It has been terrific work.

I would like to ask all of you to respond to an argument that sometimes is thrown back at us by the Japanese. They say, "Well, you've got the Meat Import Act in effect in the United States, so how can you Americans ask us to liberalize beef trade with Japan?" What is your response to that point?

Mr. COOK. Well, it is thrown at us quite often, but one of our responses to that is that if the Japanese would guarantee us the same access to their market that we guarantee to supplying countries to our market under that law, we may not have to consider it as often.

The other thing is: It is because of Japanese trade policies that we have justification for a Meat Import Law, and I can go back to 1972 when Japan was a major importer of beef—100,000 tons a year, mostly from Australia. Because their domestic industry was in a depressed state, much as ours was, they just arbitrarily shut off all imports, and that meant there was 100,000 tons of beef that Australia had to move somewhere. Without a meat import law, we would likely have been the recipient of most all of that beef. We don't feel that we should be the dumping ground for other countries' surpluses or the solution to other countries' problems on imports of beef.

Senator BAUCUS. Does anyone else want to respond?

Mr. BOND. The American Meat Institute has no position on the import restrictions; we have stayed out of that particular fight. We are for free trade.

Ms. RUUD. I would like to state that any imbalance of trade is going to hurt the entire Nation. It isn't just the cattlemen that are hurt; our entire Nation is hurt by this. But we definitely feel that we need to have some restrictions lifted on the beef.

Senator BAUCUS. As I generally understand your collective view, it is that, if Japan and other countries were to open their markets

freely to American beef, there would be no need for a Meat Import Act. Is that essentially your view?

Mr. COOK. Well, your latter comment about all countries opening their markets is something that we could sure consider. If it's just Japan, I don't think we could agree.

But we feel that you have got to have fair trade before free trade, and the Meat Import Law is one of the fairest instruments of trade in the world beef picture that there is.

Senator BAUCUS. And the Meat Import Act is also counter-cyclical, you know. It doesn't even go into effect except in a narrow set of circumstances.

Let me ask you another question. How do you respond to the claim often stated by the Japanese that American beef is not suited to their tastes? What is the answer to that?

Mr. BOND. I believe it is suited to their tastes, and I believe that they like it. There are many reports of the Japanese returning to their homeland with boxes of beef that they are buying in Hawaii or in Western places, or even, I understand, there is a good business in the Japanese area in New York department stores selling our beef to the Japanese. They like our beef. They want more. That is my response.

Mr. COOK. I was going to say that there is evidence that what we do export to Japan they like very well, and they pay exorbitant prices for it. They just simply haven't had a chance to get a good taste of it, really.

Ms. RUUD. That is what I was going to say, too. According to the figures I have, where we get approximately 54 cents a pound for the beef here in the United States, by the time it gets to the Japanese consumer it is approximately $13 a pound. I doubt that it is necessarily the taste they don't like; it's probably the price they can't afford.

Senator BAUCUS. I think you hit the nail on the head; that is, the best response is that they've got a quota. The quota must indicate that they don't want the Japanese people to have American beef. If the quota were not there, I strongly believe that there would be a lot more beef imported into Japan, and the Japanese people would be eating a lot more beef. The fact that they have the quota belies their assertion that their own people don't like American beef.

There is another response, too. For a short time in the 1950's, the quota was much more liberal, and Japanese people began eating a lot of American beef. But then Japan started to clamp down in order to protect its inefficient industry.

Another argument we often hear is that we in America are making a mountain out of a molehill; that is there is not really a lot involved here, and therefore we Americans should not be pressing this claim very much.

What is your answer to that assertion?

Ms. RUUD. I think that what we really want is fair markets. What is fair to us should be fair to the other person. I know no one can go and look to Uncle Sam always to take the excess supplies. We can't continue to do that without also being able to get rid of some of ours. And I think it is just a matter of good economic policy that we should have a balance of trade.

Mr. COOK. We have acknowledged that the beef issue has become somewhat symbolic, and I'm sure that in relation to the total it is rather insignificant, especially with the trade imbalance.

But to the cattle industry, it is significant and it does represent opening up a door to a new market and expanding that market. So whereas we may recognize that there are a lot of people interested in beef right now and wonder why we are taking so much attention on beef, we look at it as a big issue to us for the potential market.

And in addition, as I stated, it is symbolic, and somewhere I think we have to draw the line with the Japanese people on all of these other trade problems. We would just as soon see it started with beef.

Mr. BOND. Senator, our industry feels very restricted in its ability to sell beef to Japan because of the fact that they have quasi-government agency, The Livestock Industry Promotion Corp., which buys 90 percent of the beef that we sell to Japan. They buy it based on their specs and their desire for cuts of beef, and so forth. They mark it up tremendously, 200 percent, and also add a tariff on to this. They use the profits to subsidize their own beef industry, and as a result we feel this is very, very restrictive.

We desire the one-touch system; in other words, sell directly to the wholesaler or the ultimate user in Japan. This is what we would prefer doing. If we could do that, we are sure that they will like our beef, and they will buy more of it. This is why we'd like to go directly to the wholesaler in Japan. Currently we can't do that.

Senator BAUCUS. Well, I appreciate that, and I think there are other Senators who will have more questions to ask.

Your response reminds me of an incident that occurred just a couple of years ago. I was speaking about trade to a group in Montana. I made the point that American's have just not been standing up for our international trade rights. When the meeting was over, a man walked up to me and introduced himself. He was an Australian journalist.

He said, "Senator, I want you to know from my personal experience that you are absolutely right: You Americans have just been too nice. You just haven't been tough enough." I don't want to overgeneralize, but, coming from an Australian, a statement like that seems to confirm that Americans haven't been asserting our rights vigorously enough.

And that is the main point of this hearing. We have to stand up for our rights, file a GATT complaint to vindicate our rights, and maybe Japan will agree to a more reasonable agreement.

Thank you very much. I appreciate your being here.

Senator DANFORTH. Leo Durocher said, "Nice guys finish last."

Mr. COOK. Yes.

Senator DANFORTH. Senator Bentsen?

Senator BENTSEN. Mr. Chairman, I think the point about American beef not being suited to Japanese tastes is of course ridiculous, obviously, since it is suited to the tastes of Korea and Taiwan and Hong Kong, and I doubt that the size of their stomachs is that much different.

In addition to that, let me say that when they talk about restrictions on beef coming in here, our limitation on beef is about 7 per-

cent, and that is on a countercyclical basis. We are the major beef producer in the world.

Let me say to you, Ms. Ruud, I think your analogy is just superb: When you talk about going down and buying a Japanese pickup at a dealership in your State and taking it out there on the ranch to raise your beef, then you can't turn around and sell the beef back to the workers in Japan, it really doesn't make much sense. I applaud you on that analogy, and I'll use it many times—and probably give you credit the first time or two. [Laughter.]

Ms. RUUD. Thank you.

Might I add to that that it would take approximately our entire calf herd to purchase a pickup truck with the prices we receive. In fact, I think I have the slips with me to show anyone who would like to see what we received for our entire calf herd, and that's our whole year's wages for the year from our cattle. However, we do raise wheat, too.

Thank you.

Senator DANFORTH. Senator Long?

Senator LONG. Of course, my thought about it all is that it is a farce to do business the way we do, running $100 billion trade deficit, when other countries find ways not to buy from us, and the Japanese buy from us only as a last resort—if they can't get it anywhere else, they buy it from us.

Now, the Japanese came to me and explained why they wouldn't buy American beef. They said, "Well, Senator, you ought to understand, first, that if we bought more beef, we wouldn't buy it from the United States, we'd buy it from Australia." And then, second, they proceeded to explain how it is better for their people not to eat more beef anyway, better to get their protein out of soybeans or out of fish, better for their health, and so forth.

I didn't have an answer to all of that; I had to think about it some. And after I thought about it, I thought that, it should be left up to the Japanese people to conclude whether they want to eat more beef; that if they would let us send it in and set a reasonable price—set up a bunch of McDonald's and Wendy's and Burger King's there—I bet we could just sell lots of it. At least the McDonald's people are certainly willing to try that, and I have no doubt that they think they can sell lots of hamburgers. They are already selling some over there. So, one, we could sell it.

They have found all these ways to keep our product out. There is a company doing business over in Japan that would like at least to try to see what it would cost to bring American beef to Japan. When they tried to get a carload of it to Japan, a person in the company told me, they just couldn't get it to Japan in any kind of way—the Japanese found enough impediments to put in the way that the beef just couldn't get in there. So they never did find even what the differential was.

But if we did what I think we ought to do, we would take the view, "Well, we can't afford to run these huge deficits, so we've just got to put quotas on those Japanese commodities. Now, to the extent that you buy from us," we should say, "we will buy from you."

Although you have never heard me say this before, some Chinese from the mainland came by to visit me one day, and we had a nice

visit. And after they left, the Japanese came by—the same day. I said:

> Well, I have figured out how to solve the trade problem, how we can pay our way. Instead of buying all of these commodities from the Japanese, we ought to do the same thing for the Chinese that we have done for you, just ship them the plants to show them how we do it, and turn them loose to improve on our methods if they can, and then we can buy from them and they will buy from us. I would think with beef, for example, that you could make a reciprocal even-Steven deal, where the United States would buy the same amount from the Chinese they buy from us, just a balance, and we would benefit and so would they.

The Japanese said, "Oh, but you wouldn't want to trade with a Communist country." And I said, "Well, ordinarily not, but we are going broke trading with you. We would like to stay in business." [Laughter.]

Senator LONG. One thing about trading with a Communist country, they understand there's no love in it, but we aren't doing it because we love their government, or anything of that sort; we are doing it for our mutual advantage.

And I don't think the Japanese are going to do much to cooperate until we start acting unilaterally, and say: "You can't put all of this stuff into our market unless you buy from us."

Now, the Japanese would like to say that reciprocity violates the GATT and free trade, and all of that. My reaction is, "Well, whoever said that the Japanese were doing business on a free-trade basis? They have found all kinds of ways to beat the game." But the United States has never signed up as being for free trade. This idea of reciprocal trade was sold back when Franklin D. Roosevelt was President and Cordell Hull was the Secretary of State, and it was sold on the idea that this was going to be reciprocal and it was going to be fair. And frankly, I don't think it is either one, and I don't think the American people think it is either one, certainly not all the people losing jobs or people who are producing and can't sell over there while the Japanese sell us their commodities.

If it is not reciprocal and it's not fair, I just think we ought to see to it that it is, because all these people preach and talk free trade and then they don't practice it. The Japanese are certainly not practicing it where we are concerned.

Thank you, Mr. Chairman.

Senator DANFORTH. Thank you very much for being here.

Senator BAUCUS. Mr. Chairman, I might note that a distinguished member of the Japanese Diet is in the audience today, Dr. Chikara Higashi. Dr. Higashi is extremely interested in United States-Japanese relations, being the only Diet member who has earned a doctorate from a U.S. university. Dr. Higashi is not only a friend of the United States, but also a tough negotiator on behalf of his constituents. I hope that he and the members of the Japanese press who are here today tell the Japanese people how strongly Americans feel about the beef issue. I also strongly hope that Dr. Higashi urges Japan to do what is right: To open up liberalized agricultural trade with the United States.

Senator LONG. If I might make just one final statement: Senator Herman Talmadge used to serve on this committee. He went over to Japan and saw what was going on, and when he got ready to leave they asked him about the matter, and he indicated that he

didn't think it was a very good deal for us. They said, "Well, then, are you critical of the Japanese, that they are not letting us sell more commodities than Japan?" He said, "Oh, no. I don't criticize Japan that they are putting the interests of the Japanese people first. What I criticize is our Government, that we are not looking after our people the way they are looking after theirs."

From my point of view, and I think from the point of view of most of us, we want to trade with Japan; we would enjoy having more trade with them. We just want it to be even. We want for them to buy from us just as we buy from them. We want to pay our way.

Here we are, the richest Nation on the face of the Earth and we are told that we are getting ready to become an international debtor, with us owing all these poorer countries money as opposed to all the poor countries owing us. Here we are, borrowing the money that should be used to develop poor countries—borrowing their money. They ought to be using that to develop their countries, and we ought to be using our own money and credit to develop ours. Borrowing their money, running a deficit in international trade, and we ought to be the lender.

A wealthy nation like we are, that has not lost a war since Hector was a pup. The last one I can recall losing is the Civil War to somebody—you people up North—but aside from that——[Laughter.]

That's been 100 years ago. But this Nation ought to be able to defend the almighty dollar, and not borrow it from the whole wide world in order to get by.

Thank you.

Senator DANFORTH. Thank you very much.

Senator BAUCUS. Mr. Chairman, I also have some letters that I would like to include in the record.

Senator DANFORTH. The hearing is adjourned.

[Whereupon, at 10:44 a.m., the hearing was adjourned.]

[Senator Baucus' letters and statement submitted for the record follow:]

ROBERT J. DOLE, KANS., CHAIRMAN
BOB PACKWOOD, OREG.
WILLIAM V. ROTH, JR., DEL.
JOHN C. DANFORTH, MO.
JOHN H. CHAFEE, R.I.
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DAVID PRYOR, ARK.
ROBERT E. LIGHTHIZER, CHIEF COUNSEL
MICHAEL STERN, MINORITY STAFF DIRECTOR

United States Senate
COMMITTEE ON FINANCE
WASHINGTON, D.C. 20510

July 14, 1983

The Honorable Yasuhiro Nakasone
Prime Minister of Japan
Tokyo, Japan

Dear Mr. Prime Minister:

We are writing to urge you to give high priority to the issue of restrictions on Japanese imports of U.S. beef.

The current quota for high quality beef allows us to export to Japan only 10 ounces of beef per-consumer per-year. Also, U.S. beef costs more than twice as much in Japan as it does in the U.S.

This quota may seem like a relatively minor issue. But it is not; together with other restrictions, it has come to symbolize the impact of foreign agricultural protectionism on America's economy.

For many years, Senators from states with significant agricultural constituencies have been among the strongest advocates of free trade. We have argued that a system of open markets based on comparative advantage serves both the U.S. and its trading partners well. It is very important to us that Japan help maintain that system by removing barriers to U.S. beef.

We do not want to destroy Japanese agriculture. All we want is a chance to develop a new market for the high-quality beef that has never been a substantial part of the Japanese diet.

This also is a question of fairness. The U.S. provides open access to almost all Japanese products. Although we recognize there may be occasional adjustment problems so severe as to require temporary restraints, we have attempted to resolve these problems in the spirit of free trade.

We call upon the Government of Japan to join us, in that same spirit, in reaching a new agreement liberalizing the treatment of American beef.

Sincerely,

(Signature Page Attached)

U.S. Senator

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EMBASSY OF JAPAN
WASHINGTON, D. C.

October 13, 1983

Dear Senator Baucus:

I read with concern your statement introducing a "sense of the Senate resolution insisting that Japan dismantle its non-tariff barriers to beef imports." Your view on Japan's beef imports has aroused my fear that this single issue may be given too much weight in the overall Japan-U.S. trade and economic relations.

The criticisms you raised vis-a-vis a number of points in my speech might be different if you would examine what I meant in an overall context. I will be glad to talk point by point with you if there is such an opportunity. But I now feel it urgent to seek your understanding on the following points.

First, with respect to your statement of a "double standard," I would like to say that in every country, agricultural problems are politically sensitive, and it is a reality that we cannot treat agricultural trade in the same way as industrial trade. All of us are aware of the fact that agricultural problems cannot be solved on the basis of an economic rationale only; whatever their justification may be, import restrictions in the agricultural field are hardly rare in world trade. Furthermore. GATT itself admits there is a degree of distinction between the agricultural and industrial sectors.

Secondly, Japan does not intend to exclude beef imports as strictly as your statement of 10 ounces per capita would indicate. Japan is seriously groping for the survival of the small cattle industry it has. As you know, Japan has only 4.5 million head of cattle, about half of which is comprised of dairy cattle supplying fresh milk to 115 million Japanese people, compared with 10% in the U.S.A. Considering this small number of dairy cattle in relation to the whole Japanese population, you will understand the difficulty of our situation in that the reduction of Japanese cattle would cause serious damage to our supply source of both meat and fresh milk. Even now, we import 139 thousand tons of beef, about 30% of our consumption, including 36 thousand tons from the U.S. If we count this import in terms of the number of cattle, it is equivalent to 750 thousand. Nevertheless,

we are seriously considering an increase in our beef imports, with the expectation of an increase in our domestic consumption. If we "dismantle our non-tariff barriers to beef imports" altogether, whatever cattle industry we have would be forced to fade away. I am sure that it is not what you are expecting of Japan. A political reality is shown in the fact that even though the U.S. has as many as 118 million head of cattle, the beef imports restriction is to be triggered by the 7% level of total domestic production, meanwhile Japan's import percentage is 30%. I hope that you will understand the serious impact of the elimination of quotas on our domestic beef industry.

Thirdly, we maintain that Japan has not refused to make reasonable concessions, although they are contemplated within the framework of import quotas. We will continue our endeavors to find a mutually agreeable compromise so that the matter will not become a more serious issue in our important bilateral relations. It is my sincere hope that the U.S. side will also explore realistic solutions in the current negotiations.

I am resolved to do my best to attain this goal of mutual accommodation. In the meantime, let me express my sincere hope that we will have the support and cooperation of you and your colleagues in the Capitol to this end, which is vital for a strong and enduring Japan-U.S. relationship.

Sincerely yours,

Yoshio Okawara
Ambassador of Japan

The Honorable
Max S. Baucus
United States Senate
706 Senate Hart Office Bldg.
Washington, D. C. 20510

MAX BAUCUS
MONTANA

WASHINGTON, D.C.
(202) 224-2651
MONTANA TOLL FREE NUMBER
1-800-332-6106

United States Senate
WASHINGTON, D.C. 20510

October 31, 1983

Honorable Yoshio Okawara
Ambassador of Japan
Embassy of Japan
Washington, D.C.

Dear Mr. Ambassador:

I was pleased to receive your October 13 letter.

I share your goal of "a strong and enduring U.S.-Japan relationship." That kind of relationship enhances our mutual security. And it means our consumers get better products and our producers get wider markets.

Montanans are developing what we think is a special relationship with Japan. More than ever before, we have been engaging in economic and cultural exchanges. These exchanges have convinced us of the importance of increased U.S.-Japan trade.

However, as you know, increasing bilateral trade between the U.S. and Japan is not easy. We currently face trade disputes over beef, specialty steel, cars, semiconductors, industrial targeting, telecommunications procurement, exchange rates, and citrus.

The only way to keep these disputes from overwhelming us is to maintain our basic commitment to free trade. We must try to resolve each dispute consistently with that commitment.

It must also be clear that free trade is a two-way street. The beef issue is a significant example. As you say, some GATT provisions distinguish between agricultural and industrial trade. You also say accurately, that Japan is our most important export customer for beef and certain other agricultural products. And you say that the American economy is not a pure free trade economy.

But none of these points answer the two key questions about this specific issue: whether Japan's barriers against beef imports are inconsistent with a basic commitment to free trade and, if so, how those barriers should be dismantled.

To answer these questions, let's look at the record.

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Since 1960, overall Japanese consumption of meat has risen sharply, from 5 to 22.5 kilograms per capita per year. But the consumption of beef has risen much less than the consumption of pork and poultry. One main reason: barriers against beef imports. As John Longworth writes,

> "[Japanese] beef production has not been able to achieve the remarkable gains in productivity which have characterized the devlopment of the poultry, meat and pork industries...Of course, additional supplies of beef could have been imported, but the Japanese Government has elected to restrict imports and allow the strong consumer demand to push the price of beef up sufficiently rapidly to cover the increased costs of domestic beef production."

However you look at it, Japan's quota, tariff, and LPIC pricing barriers are inconsistent with the basic principle of free trade. And they reduce the incomes of U.S. cattlemen.

What impact does this have? As you say, "agricultural problems are politically sensitive." Here, as well as there. To be more specific, keep in mind Congressmen from agricultural states have been strongly committed to free trade. We've generally resisted protectionist measures, including ones directed at Japan. But if Japan's barriers against beef imports persist, our commitment may waiver. We may be unable to convince our constituents, for example the people of major beef-producing states like Montana, that Japan, too, maintains a broad commitment to free trade. In that case, agricultural support for America's commitment to free trade may disintegrate. That's why the beef issue is important, substantively and symbolically.

And that's why I introduced S. Res. 225. I wanted to remind U.S. negotiators, and indirectly Japan, how important the beef issue continues to be.

My earnest hope is that the issue will quickly be resolved, so that American cattlemen can increase their sales to Japan, Japanese consumers can buy more and cheaper high-quality U.S. beef, and our mutual commitment to free trade can be affirmed. Then, further legislative action on the beef issue will be unnecessary, and we all can turn our attention to the other important measures that are necessary to further improve the U.S.-Japan relationship and further increase U.S.-Japan trade.

With best personal regards, I am

Sincerely yours,

Max Baucus

EMBASSY OF JAPAN
WASHINGTON, D. C.

November 21, 1983

Dear Senator Baucus:

Thank you for your letter dated October 31.

I appreciate your continued interest in the Japan-U.S. trade relationship and would like to work with you so that we can continue our efforts to promote the trade between our two countries.

As you mentioned in your letter, Japan as well as the U.S. is committed to free trade system as it has a vital interest in the international trade. What I wanted to reiterate in my letter was that agriculture has a special political background in any country including the United States against which the government is bound to give some kind of protective measures. But we very much hope that there will be substantial expansion in agricultural trade between our two countries. As you know, Japan has been improving the access of the U.S. agricultural products to its market. The same consideration applies to the beef import which is now under negotiation.

Let me again express my sincere hope that, with your understanding and cooperation, we will come to a mutually satisfactory solution soon.

Sincerely yours,

Yoshio Okawara

Yoshio Okawara
Ambassador of Japan

The Honorable
Max S. Baucus
United States Senate
706 Senate Hart Office Bldg.
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United States Senate
WASHINGTON, D.C. 20510

December 19, 1983

Yomiuri
973 National Press Building
Washington, D.C. 20045

Dear Sir:

I am a United States Senator from the state of Montana. The people of my state believe that we are developing a special relationship with Japan. We are convinced it is vital that this relationship and America's overall relations with Japan be strengthened.

I am writing to you at this time to make an urgent appeal to the government and people of Japan concerning an issue of major importance to both of our countries--trade.

Japan and the United States are the two largest economies in the free world. Trade between our countries this year is expected to top $60 billion (14 trillion yen). The flow of trade, however, is not even: two-thirds consists of sales from Japan to the U.S., while only one-third flows from the U.S. to Japan. From our perspective, this means a trade deficit of $18 billion (more than 4 trillion yen) this year.

Nevertheless, the United States gives broad access to the products Japan produces competitively. We believe in free trade. But free trade is a two-way street; to succeed it must be reciprocal.

Many Americans now believe that free trade between the U.S. and Japan is not reciprocal. Japan does not give our competitive products the same treatment it receives from the U.S. This perception has fostered calls for American protectionism that may endanger the trade that binds us together.

The people of Montana, like other Americans, need to be convinced that Japan maintains a commitment to free trade. Montanans would like to export to Japan more of the products we produce well in our state, including our high quality beef. Japan is already the largest customer for American beef, and we are pleased that the smooth flow of beef exports from America has been established. But it is only a beginning. We would like to do more. We would like Japanese consumers to benefit from our products the same way we benefit from yours.

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Beef prices are high in Japan. A kilo of American beef in Japan costs more than twice as much as in America. Why? Because restrictions on imports, tariffs, and pricing barriers limit supplies and push up costs. The Japanese consumer pays dearly for beef that is not always easy to find.

The Japanese government tells the American government that agricultural issues in Japan are too politically sensitive to open up the market for more imports. I would like the Japanese people to also know that the American people are just as sensitive, if not more so, about agriculture.

But there is a difference between our agricultural producers. Our agricultural producers are strongly committed to free trade. Whenever one group or another in America calls for protectionism, they have led the opposition to these calls.

I and other Congressmen from agricultural states have also been committed to free trade. But if Japan's barriers against our beef are not removed, our commitment may weaken. We believe in a fair deal for our products just like yours. This is all we ask. We do not want to adopt a protectionism that will harm both of our countries, but we may be forced to do so if the Japanese government does not convince us that it is committed to free trade.

Your recent democratic elections are a great tribute to the Japanese people. Furthermore, they underscore the democratic traditions that our countries share. Now that the elections are over, I hope you will turn your attention to improving the trade relations which also bind us together.

I firmly believe the beef negotiations are an essential part of that effort. Your nation's willingness to remove barriers to imported beef will go a very long way to improving relations between our two great countries.

Sincerely,

Max Baucus

MAX BAUCUS
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United States Senate

WASHINGTON, D.C. 20510

December 20, 1983

Ambassador Mike Mansfield
American Embassy of Tokyo
San Francisco, APO 96503

Dear Mike:

Despite the long Senate recess, we are not slowing the pace of activities in our office. Many of these activities involve trade, and one in particular centers on Japan: the beef imports issue. I have asked the State Department to cable this letter to you so you can be fully informed of what I am doing.

I have waited until the elections were held to launch a new effort on the beef issue. Now that they are over, I believe it is important that we move quickly and forcefully.

Yesterday I sent a letter to the editors of three Japanese dailies -- Asahi, Yomiuri and Mainachi -- in an attempt to publicize our message. That letter is attached.

I also sent a letter yesterday to President Reagan which I am enclosing.

This morning I met with Japanese Embassy officials to inform them of my actions. I gave them copies of the Reagan letter and the "Letter to the Editor."

Shortly after my meeting with the Japanese Embassy officers, I held a press conference with Japanese media reps in Washington. Prior to questions and answers, I delivered a short statement, the highlight of which was an announcement that I currently plan to tie my vote on domestic content to success (or lack thereof) in the beef negotiations.

The decision to tie my vote was made only after careful consideration. I believe it will drive home to the Japanese the importance of dismantling barriers. It will also convey the message that the votes of free traders from states with agricultural constituencies are not automatic. As you know, Montanans still support free trade, but they and others want their representatives to make it clear to our trading partners that free trade must go both ways.

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I intend to continue pressing hard on this issue until it is resolved. I believe strongly that a successful agreement will pave the way for a renewed commitment to free trade by both of our countries, and for a more mature relationship overall.

The setback that the LDP experienced in the recent elections was a surprise to many of us in Washington. I suspect that the Japanese will use the election results as a reason for foot-dragging on trade negotiations. In order to prevent this from occurring, I decided to go forward with my campaign to dismantle the Japanese beef barriers stressing that U.S. - Japanese trade relations transcend politics and individuals.

I would appreciate any thoughts you have on the recent elections and where the Japanese are headed. I will keep you up to date on my program. Please let me know if there is anything you believe that we in Congress can be doing to be more supportive of your mission's efforts.

Enclosed is a "I have a beef with Japan" button which I will be wearing until the issue is resolved.

Wanda and I send our warmest personal wishes to you and Maureen for a Merry Christmas and Happy New Year.

Sincerely,

Max

AMBASSADOR OF
THE UNITED STATES OF AMERICA
TOKYO

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December 27, 1983

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The Honorable Max Baucus
United States Senate
Washington, D. C. 20510

Dear Max:

Thank you for your letter via the State Department, which I was very happy to receive, and also the copies of your letters to the Japanese newspapers and to President Reagan.

In response to your request about the recent elections, it appears that the Prime Minister, after the LDP suffered a heavy loss at the polls, has been able to bring about a consolidation with middle-of-the-road opposition groups so that the election number of 250 has now been raised to about 268. This will give control of fifteen of the eighteen committees to the LDP. The other three must be shared with the opposition.

Last evening the Prime Minister announced the appointment of a Cabinet which will give him the instrument through which to work, but leading up to it, there was a good deal of opposition from within the LDP itself. It remains to be seen whether those selected can carry the considerable political water to continue to open trade doors. We have been continuing our quiet approach and now that the Cabinet has been announced we will step up our efforts.

Specifically on beef, the political resistance in Japan is most strong. For this phase of our access efforts, our policy has been to apply firm, persistent pressure and allow the Japanese politicians to draw the final line beyond which lies certain political suicide. With the outcome of the election, it is quite possible that the final line has been advanced. Not surprisingly, a prominent agricultural Dietman who publicly opposed beef and orange imports at the expense of U.S.-Japan relations fared well with his constituents. Conversely, a more internationally-minded senior agricultural Dietman was defeated.

Progress will be tough and will require keen management on our part. The LDP's margin has been this thin before and

we have still made progress. The landmark 1978 beef and citrus agreement is an example. I doubt that we will achieve results on this round that are as dramatic as those were at that time, but there will be a later round. We are approaching the end of the 1978 agreement. If we are not able to make acceptable progress there is the GATT option. I do not know how the U.S. livestock industry would feel about having no fixed commitment from our largest beef export market if we took the GATT option.

Last year the Japanese imported 62.1% of all the beef shipped abroad by the United States. It was all high-grade, high-priced stuff. We anticipate the figure for this calendar year will reach 63% and we hope to continue that advance at a faster rate in the months ahead. Incidentally, it is my understanding that if all the quotas and tariffs on approximately 13 agricultural products, including beef and citrus, were removed it would mean about a $500 million to $600 million dent in our trade deficit with Japan in the short term and perhaps one to three billion dollars by 1990 if we are competitive.

I would hope, in addition to increasing our beef imports, that it would be possible to work out an arrangement to ship surplus Alaskan oil and gas to Japan and East Asia. The oil now goes down the West Coast through the Canal up to the Gulf Coast at a cost of about $5.50 - $5.60 a barrel, whereas we could ship in oil from Mexico at around 50¢ a barrel. If an arrangement could be worked out to ship surplus Alaskan oil to Japan and East Asia, it is my understanding that it would reduce our deficit by about $3 - $4 billion in the short term, although I recall the figure of $6 billion being used in a Business Week article some weeks ago.

At the present time, Nakasone will not have the flexibility and freedom of movement that he had because of the LDP's setback at the polls as he will be hemmed in somewhat, and while his authority will remain, his options to achieve what he desires in defense and in opening up the Japanese market will be circumscribed to a degree. However, as I have indicated, we have been in difficult situations before, and I must say, that has been the norm during my 6½ years in Tokyo. So far we have been able to cope with our difficulties and it is my belief that with a little patience and understanding at home, we will be able to work out reasonable agreements in the months ahead.

I think also, turning back to the question of beef, that the American beef industry ought to become more export conscious and make greater efforts, not only in Japan but throughout the world, to expand our overseas shipments. As I recall, the only beef we export is the high-grade stuff and as far as low-grade beef is concerned, we import a considerable amount under the law

from Australia and I believe New Zealand. It is a difficult problem for the Japanese Government, and especially the LDP which depends upon the farm bloc for survival, to face up to. I am confident, however, that the Prime Minister will do his very best to open the Japanese market as much as possible. Hence, the need now to give the Prime Minister a little more flexibility, a little more time and, on our part, a little more patience.

I hope the above will be of some use to you in response to your request to me to express my thoughts. In the meantime, Maureen and I send our best personal wishes, as always, to you and Wanda for a happy and peaceful New Year.

Sincerely yours,

Mike Mansfield

COPY

Milton A. Sanders

4-14-2 Okayama East, Shijonawate City
Osaka-fu, Japan 575
Phone: 0720-[illegible] Cable Address: JAPAN SANDERS DAITO OSAKA

December 29, 1983

Readers' Forum
MAINICHI DAILY NEWS
6-20, Dojima 1-chome
Kita-ku, Osaka 530

To the Editor:

With the letter of Senator Max Baucus (MDN Dec. 29) showing just the tip of the iceberg, Japan's cattle raisers are on notice that they will have to shoulder the responsibility for the disaster to Japan's economy that will come with protectionist laws in the United States. Max Baucus, as a senator from one of the big cattle producing states, knows only too well what can happen to Japanese exports to the U.S. if Congress votes to cut imports on a reciprocal basis.

In my letters in the past I have stressed this point over and over again with an appeal that somebody do something here in Japan before it gets too late. Japanese farmers and, as well, Japanese government leaders are obligated to recognize the damage they will cause if they do not take a realistic and practical look at the threat that is facing them. Having seen what has happened in just the large motorcycle business, the automobile industry should take up the cudgel and do something to prevent auto exports from being severely curtailed if Japanese farmers don't do something to ease this situation. The farm bloc in the U.S. has little sympathy with protectionist legislation but it will readily side with Michigan and other states which have been hit with unemployment in their auto factories.

Having travelled in all of the cattle and farm states, I would recommend that a group of farmers, cattle raisers, and government bureaucrats pay an extensive visit to those areas in the U.S. to find out just how the people feel. They should also visit the areas depressed by unemployment due to imports from Japan. If that doesn't wake them up, then the empty stomachs they will soon experience will certainly jar them out of their dream world.

As an American living in Japan for almost 20 years, I don't want to see protectionism anymore than the Japanese do, but unless someone takes the lead in correcting the trade imbalance--without recanting the ridiculous thinking of that executive managing director of a prestigious communication company--a disaster of huge proportions will fall on the commercial area of Japan.

Once before Japan underestimated the will of the American people. Let's not have it happen again.

Sincerely,

Milton A. Sanders

(Disk 5; BAUCUS)

3-9 Shirakawadai 7 chome H503
1994 JAN -9 AM 10: 42 Sumaku T654 Kobeshi
Japan

Senator Max Baucus
Senate Office Building
Washington, D.C.

Dear Senator Baucus,

I read with interest your open letter to the Editor of the Mainichi Shinbun. It was printed in the December 29th edition of the paper, and concerned the issue of free trade. I would like to take this opportunity, if I may, to address some of the concerns you expressed.

I should explain that I write to you now as a resident of Japan, but an American citizen. My husband is Japanese, and employed in the import-export field. Moreover, he and his family are all of the samurai class and highly educated, many of them have lived abroad in both the United States and Europe.

I want the American public to understand exactly what is happening here in Japan, because, due to the increasing trade imbalance, it very much affects their own lives.

Japan is, before anything else, a fiercely competitive trading nation. Whatever the motivation for that fierce competitiveness, it is a reality, and it is essential to keep that in mind while choosing to assess the trade imbalance problem. Japan is also very protective of her own society in general and her industries and agriculture in particular. I am, in fact, enclosing other articles which appeared in the Mainichi during the past few days. Each day brings a new onslaught of much of the same. The overall picture painted for the citizens of Japan is that of a nation superior to its trading partner, the U.S., in all ways. The news from the west that filters in here is of a nation and an economy on its last legs, desparately needing the help of Japan in order to survive.

But, of course, this is not true, as most Japanese leaders are aware. However, the image is a satisfying one, and one which they actively reinforce. With an air of arrogance and smugness, they do not believe that the American Congress will ever really have the guts to impose trade restrictions. The situation reminds me of two little boys who want to see a baseball game, that is hidden from view by a tall fence. At last they seem to agree that they will each see half of the game standing on the shoulders of the other. However, it seems the first boy, once on top, has elected to stay there at the expense of the other. He sees no reason to compromise, he is on top. And he strongly believes that the other boy, who is generous by nature, will not simply pull out from under him.

But that little boy, just like the Japanese, is taking an unfair advantage of the situation and the shoulders upon which his advantage rests. That is the truth of the situation that they will cloak in many smiles and bows and offers of studies (which will take years to conduct).

That the American people, and especially the U.S. Congress fail to realize this is nothing short of an incredible naivete. Tokyo does not act, Senator, it reacts. It will not improve the trade deficit, which is a surplus to them, and one they are proud of. They will not heed American arguments about fair play, they do not play by the same set of rules. Please understand this for what it is, in light of all the statistics and information you can get your hands on.

The Japanese people here are behind their government. What you seem to be referring to as the recent democratic elections, underscore very little more than a rejection of Nakasone. Not Tanaka, whom many believe was simply prey to a C.I.A. inspired set-up. Tanaka himself was re-elected to the parliament with the largest majority of the election. For years the propaganda has seeped through this culture, Americans don't want to export to Japan. I have heard that from so many people, in so many walks of life that I still find it incredible that it isn't actually in some public school textbook. We want American products they will say, but Americans just don't want to accomodate our market. And, Senator, they believe it. They believe that American beef is not high quality, the poorest peddler in the street will tell you that much. It may be cheap, they say, but, ours is ten times more delicious. Well, as a matter of fact, I have tasted both, and they are about the same in flavor and texture, with the notable exception of Kobe beef, which is tremendously more expensive than the other beef here. But that is all irrelevant, and that is because it is what the vast majority of Japanese believe. And they most definitely act on what they believe.

Which leads me to the "democratic traditions that our countries share." Could you be a little more specific, sir? This is a country with a history of 2000 years of feudalism and class distinctions. In light of that, 40 years or so of democracy is hardly very much. The whole society is interwoven with debt and obligation to fellow Japanese on a vertical hierarchy. Women earn 25¢ to the 1$ that men earn, they are forced to retire 10 to 20 years before men, and marriages are still 95% of the arranged type. Men cannot dispute the decisions or words of their employers, nor request the full payment of employee benefits. This is their culture, I offer no value judgement, because it works for them. I must admit I vastly prefer my own country. But I am not anti-Japanese. I am a realist, unlike most of the scholars who come here to study, to work, or to publish, and who are so enamored with Japan that their view is always colored to that end.

What I am suggesting is that you protect the U.S. economy. Restrict imports, make the quotas based on the selling rate of U.S. products in Japan (let the Japanese government figure out some nice creative way to re-educate their populace in line with reality). Insist that Japan observe the 50 year copyright law, instead of a 15 year patent law that they maintain here which they wish to extend to computer programs to gain inroads into the software field, not by hardwork and talent, but by infringing on the rights and energies of I.B.M. and others. Recognize the strength of the American position once it clearly indicates it will use its big stick. Talking softly has been going on for far too long, to no avail. Japan, as a trading partner, needs the United States far more than America needs Japanese products, all of which, to some extent compete with American products.

In conclusion, I wonder if you know just how proud the average American would be to see the U.S. stop acting like the paper tiger she is believed to be here. .

Try to remember you are dealing primarily with a competitor, and the ally part comes way below that.

Oh, yes, before I forget, do you think you could say something to the senators from my home state of Illinois? Suggest that they start getting the Japanese to pay for their own defense of their country.

Thank you for your time and attention to this letter.

Sincerely,

Bonnie Kuraoka

Bonnie Kuraoka

brk

8-10-3 Hisagi Zushi
Kanagawa-ken, Japan
December 31, 1983

Senator Max Baucus
c/o United States Senate
Washington, D.C., USA

Dear Senator Baucus,

Please accept this as a note of "thanks" as (1) a concerned American and, (2) an entrepreneur attempting to introduce an American farm product i.e., processed peanuts, in the Japanese market. Your letter, published in the Dec. 29th edition of the Mainichi Daily News, was tangible evidence of concern for the plight of small businessmen and farmers interested in exports to Japan.

Instead of belaboring three years of frustration operating in the "marketing trenches" of Japan, I've enclosed an article by Mr. Jon Woronoff. Please read it. From my experience it perfectly describes the attitudes and methods employed by our "friends" to guard and maintain ecomomic success in their marketplace. By the content of your letter it's obvious you're aware that we need help. For what it's worth Senator, experience tells me that rhetoric just isn't going to "get their attention". Until we "send them a message" similar to France's complex and lethargic processing of video cassette recorders (VCR's), the only change is going to be a higher/larger adverse balance of trade. To support my position I've enclosed a pertinent article by Mr. Yamamura, Japan's new agriculture, forestry, and fisheries minister, which appeared on page 5 of the same MDN edition as your letter. It's an absolute joke and travesty Senator that our tremendous nation,largely, if not solely, responsible for the reconstruction of Japan since W.W. II, has to accept such a position from such a high ranking and powerful official of the Japanese government.

As an American I don't intend to give up my efforts in fairness to my family and principal. Anything you and your colleagues can do to support our cause will be appreciated.

Hope you and your family enjoyed a festive holiday season and have a "HAPPY NEW YEAR".

Sincerely,

Dave Fratangelo

DF/jf
ENCLOSURES

Mainichi Daily News (B) | (5)
Thursday, November 10, 1983

Inside Japan, Inc.

By Jon Woronoff

Foreign 'Success Stories'

When the American officials gathered in Tokyo last year for a meeting of the United States Japan Trade Subcommittee they found among the documentation given them a list of "typical foreign products holding a high market share in Japan." This list was drawn up by none other than the Ministry of International Trade and Industry to correct the supposedly false impression of foreign businessmen and diplomats that the Japanese market is "closed."

Here, in a list of some 80 headings and 200 companies, was proof positive that the market could be penetrated and that, in some cases, it was possible to gain as much as a 100 percent market share. In fact, the tabulation showed that American and European products had a market share of 50 percent and up for 23 categories and 80 percent and up for 11 categories.

Reading through the list there may have been some American officials who snickered at one heading or another. However, on the whole, they accepted it for what it purported to be, some concrete evidence for once on how foreigners could succeed in Japan. And, since these diplomats only have a rather hazy notion of how business is actually accomplished in Japan, they may have accepted it as such.

Alas, in the hands of someone who knows a bit more about Japan, the list can turn into the complete opposite. Actually, it makes it easier than ever to understand more exactly why the tremendous trade imbalance has arisen with America and Europe and why it is likely to continue.

Looking at the list, one is first somewhat disturbed by the reference to "typical" foreign products sold in Japan because many of them seem a bit more atypical. There is almost nothing included from the standard household appliances, no mention of major consumer goods like television or audio equipment, no cars or trucks, and not much machinery.

Instead, taking the headings where the market share is highest, we get things that are as "typical" as dry soup, ropes (or mountain climbing, deodorizers, golf balls, stem wine glasses, cola drinks and instant cameras. Yet, even to get such high market shares, it appears that the category has been artificially narrowed. Obviously, if you take stem wine glasses and not all glasses or glassware as such, you can get impressive figures. The same thing happens when you have a special category for BHP-type plasticizer or butyl rubber and not chemicals or artificial rubber in general.

Biased Categories

Thus, a reference to high market shares is rather meaningless when the categories are cut so thin that most entrants happen to be foreign companies and sometimes they would seem to have a monopoly on certain products. If you take most of the sectors with high market share and multiply by the value of the product, the actual result in sales is quite modest. It can add up to hundreds of millions of dollars. But that is nothing balanced against a major Japanese export like automobiles, televisions or steel.

Looking through the list, however, it is possible to find a few items which do add up to a fair amount of money. Among them are cola drinks, instant coffee, some of the high-fashion apparel, cosmetics and perfume, computers, copy machines, typewriters and cash registers, sporting goods, razor blades, and perhaps pet food. But, how much of this money ever leaves Japan?

What is striking about most of the items on this list, and particularly those which actually do show reasonable sales, is that very few of them are imported. Indeed, the number of articles that are imported is extremely low while the vast majority are manufactured in Japan either under license or by an affiliated firm.

Even for the imports, it is necessary to remember that pitifully few have gotten into the Japanese market without solid support from a local wholesaler or distributor. That explains part of the "success" of Schick razor blades and Proctor & Gambles' disposable diapers. Naturally, the Japanese partner, in this case K. Hattori and Sunhome, have a right to recover their costs and share in the profit and thus any earnings accruing to the foreign company are somewhat less.

Still, at least the companies concerned will be making some profit on exports of the actual product and they will be remunerating their workers, paying taxes, and buying various inputs locally, all of which is to the good of their home country. The same cannot be said of the two other groups.

When a foreign manufacturer or designer allows its goods to be produced abroad under license, as happens for Pierre Cardin or Christian Dior, for Tetrapak or Adidas, it is only collecting a royalty. Even if the manufacturing is done by its own Japanese affiliate or a joint venture (IBM, Dow Chemical, Max Factor, Caterpillar, Coca Cola, etc.), there is at most a profit, royalty, and some residual sales of products and intermediate goods to be expected. Otherwise, most of the basic inputs, labor costs, overhead, and so on are expended in Japan.

Thus, when foreign goods are manufactured in Japan, relatively little benefit accrues to the foreign country and only somewhat more to the foreign company. That, in case anyone companies fight desperately to avoid being forced into local production or joint ventures and push their exports so aggressively. That is also why most of them tend to set up their own distribution channels as quickly as possible and only pass through a local partner when necessary.

Looking at this in broader terms, we can understand what is happening to the trade balance. For, when a product made abroad is sold to Japan, the total value of the product (i.e. its cost plus profit) accrues to the foreign country. When the same product is made in Japan, almost nothing accrues to the foreign country in the trade balance. In the payments balance, at least there is an entry for the profits and royalties. Still, the value of these items is at best a fifth, and more normally only a tenth or even a twentieth, of the value of the exported goods.

Of course, if local production makes it possible to reduce costs and expand sales, it could make sense for the manufacturer. But this would mean an immediate dip in the trade balance. And it may be necessary to expand sales by five, 10, 20 or more times to compensate for this in the payments balance.

Homemade Imports

In Japan, there is a regular pattern followed by most imports. First, they come in small quantities and have to be squeezed into the market by a local distributor. The return is modest given the small quantity sold. However, if the article makes good and has to be imported in large quantities, the Japanese distributors will immediately demand the right to produce it locally either under license or in a joint venture. Or the foreign company will manufacture it locally on its own or with a partner. Then, although large sales are achieved, very little of this flows out.

That is why a list of foreign products holding a high market share is so meaningless. For these goods are only foreign in brand name, design or patent. To all useful purposes, they are really Japanese and the foreign country benefits from them only marginally.

So, to someone with a bit of insight, this MITI list does not prove that foreign products can enter the market and therefore help foreign countries to balance their trade and payments with Japan. It proves the opposite. It shows how hard it is to get products into the market unless they are rather special or unique. Then, if they do succeed in gaining market share, they will be absorbed by the Japanese economy and end up of little help to the home country.

(Jon Woronoff is the author of "World Trade War" (Sekai Keizai Sensō) and "Japan: The coming Economic Crisis" (Shin

HARUMI ANTIQUES

はるみ 古美術

1984 JAN -3 AM 11: 31

Dec. 24, 1983

Dear Senator Baucus,

This letter was prompted by the article in the Dec. 22 Japan Times about your position on Japanese beef imports.

During the past eleven years of living in Japan, I have concluded that the Japanese understand only one thing when it comes to international negotiations: matter-of-fact POWER. Threats of "domestic content" legislation, logic and reason (as the rest of the world knows it), and the concept of reciprocity are meaningless to the Japanese. They will not accept the seriousness of the situation and the resolve of the U. S. and other countries until concrete measures have been implemented to force reciprocity.

The Japanese consumer has received no benefit from any of the supposed "market liberalization" measures or trade agreements negotiated to date. Imported products are no cheaper at retail than in the past. (Importers and distributors have benefitted through lower costs while maintaining their prices, however.)

The price of beef that is imported is kept artificially high through the intra-family brokerages and the government-sanctioned floor price imposed on imports. (Addressing beef quotas only will not resolve the problem; additional competition for the present monopolistic importers and removal of the Livestock Industry Promotion Council floor price surcharge will also be required.)

Other imports are subject to a wide range of non-tariff barriers that make them unavailable or grossly over-priced. Government and quasi-governmental monopolies also serve to keep prices high while barring or dissuading competition (eg, the Japan Tobacco and Salt Corporation and the Japan Telephone and Telegraph Corporation.)

Neither the Japanese government nor the powerful farmers' groups nor the huge trading companies have any desire or intention to change the situation. The complex import and distribution system does help to keep unemployment down. Restricted purchases of foreign products does promote purchase of domestic goods, thereby profiting Japanese producers. Supporting all of this is the Japanese characteristic of accepting things without complaining or banding together.

Last year, there was a short-lived attempt by the Japanese to forestall American protectionism by publicizing the price benefits of imports to American consumers. This stopped abruptly (within three days); I assume that someone here realized that Japanese consumers could also benefit from lower prices resulting from "free trade" imports.

9-6-14 Akasaka, Minato-ku, Tokyo 107, Japan

HARUMI ANTIQUES

はるみ 古美術

The only viable alternative I can see to American protectionism would be a strong Japanese consumer movement to demand the price benefits of free trade. This is unlikely in the near future because of the historic Japanese social apathy toward group action, the political implications of economic harm to the farmers who provide most of the support for the ruling Liberal Democratic Party, and lower profits for all levels of the distribution system.

The Japanese are masters at the art of making promises and then excuses for why the promises weren't kept; the rationalization of double standards; statements that are so outrageous that the hearer ignores them, only to find that this implied acquiescence and resulted in "fait accompli" situations; and stalling until a new government takes office (which occurs every year or two, and then it is necessary to start all over with the new group of bureaucrats, of course).

There is no question that the Japanese have practiced blatant protectionism in building their domestic markets, and that the Japanese consumer subsidizes exports. At the same time, the Japanese have enjoyed access to American consumer markets and areas such as banking services and investment opportunities that are virtually closed to foreign firms wishing to operate in Japan.

I have to agree with the Japanese position that most American firms do not try hard enough to export their goods. It is necessary for U. S. companies to become much more agressive in exploiting markets for their exports. Still, no amount of marketing effort is going to open the Japanese markets.

Like most American businessmen, I do not like the concept of protectionism, but I have concluded that there is probably no alternative way to convince the Japanese that reciprocity is really a two-way concept. The real point of this letter is to urge you and your colleagues to take the drastic action that seems necessary to force the Japanese to accept free trade as being reciprocal.

Sincerely,

David Rose

9-6-14 Akasaka, Minato-ku, Tokyo 107, Japan

MONTANA

MONTANA TOLL FREE NUM
1-800-332-6100

United States Senate
WASHINGTON, D.C. 20510

March 6, 1984

Ambassador Mike Mansfield
American Embassy in Tokyo
APO San Francisco 96503

Dear Mike:

A front page story in the March 5 Washington Post presented an excellent summary of the status of U.S.-Japanese trade issues. Among other things, the article noted the urgency of reaching an agreement on beef and citrus by March 31. The recent visits to Japan of U.S. officials and your call on the Foreign Minister February 2 were referred to as examples of continuing U.S. pressure.

Your leadership in pressing the Japanese on the beef and citrus talks is deeply appreciated by all of us in Congress who have followed the negotiations closely. I have stepped up my own efforts in recent weeks to keep the issue in the public eye.

Two weeks ago, I held a special order on Japanese beef and was joined by 9 other Senators who made statements on the issue. Last week I met with Vice President Bush to note my concern that with the citrus talks on track and defense advocates more or less satisfied with the new Japanese defense budget, the Administration may be persuaded by the Japanese to lay aside the beef issue. The Vice President assured me this would not happen, noting the Administration's solid commitment to reaching an acceptable agreement on beef.

As I look to the few remaining weeks until the agreement expires, I want to do what I can to insure that the talks succeed. In this regard, I have renewed my call for hearings by the Trade Subcommittee of the Finance Committee. The Administration has indicated that they would view such hearings as helpful, and would be prepared to participate.

In preparing for possible hearings, I look to you for guidance and counsel.

First, anything you can share with me about your recent discussions with Japanese leaders would be appreciated.

Second, I would welcome your perspective on Japanese "bottom line" bargaining positions.

Third, do you believe the Japanese are convinced we will cave in at the last minute? Can they parlay their defense budget and citrus agreement into a U.S. retreat on beef?

Vice President Bush told me that he believes domestic political pressure is not such a key ingredient in determining the Japanese bargaining stance as we have previously thought. I was reassured by this, but wonder, if that is the case, why the Japanese have failed to offer any meaningful concessions thus far.

I remain optimistic that we will succeed. I am prepared to assist you in any way during these next crucial weeks. Please let me know what else we in Congress can do to be helpful.

Please be assured that members of Congress are watching carefully, are very appreciative of what you and the Administration are doing, and are prepared to back you up in any way we can.

The awareness of the American public on this issue has dramatically increased. I hope the Japanese understand how important this is to us.

I am sending this letter via State Department cable to speed transmission. I look forward to receiving your views.

Wanda sends her regards, and we both look forward to seeing you and Maureen again in the near future.

With best personal regards, I am

Sincerely yours,

United States Department of State

Washington, D.C. 20520

1984 MAR 21 AM 9:24

March 16, 1984

The Honorable
Max Baucus
Suite 183 Dirksen Building
Washington, D.C. 20510

Dear Senator Baucus:

We received the following letter for you from Ambassador Mike Mansfield.

Dear Max:

I appreciate the opportunity to continue our correspondence on the beef issue. I will respond to your three questions and provide some additional observations.

In addition to my representations to the Japanese Government, I continue to discuss US-Japan trade frictions with the LDP leadership, including those with agricultural interests, and opposition party leaders. From these conversations, it is clear that a political consensus has developed in the LDP that the problems must be solved through compromise in order to maintain Japan-US relations. However, all Japanese stress that politically, beef is by far the most difficult issue. This is the reason that beef is being handled at the political level while other issues are being handled at the administrative level.

We will soon learn the answer to your second question -- the Japanese bottom line on beef. Recent press reports indicate that the Japanese will soon raise their offer to a 5,000 to 5,500 ton annual increase over the next four years. We would like to do better, and will certainly make every effort. I believe that the consultations that have occurred at the highest levels will result in an offer that represents the water that they, as politicians, believe they can carry.

From the compromise obtained in 1978, US beef exports to Japan have risen from 20,000 tons, in 1977 to 59,000 tons in 1983 or 68 percent of our total beef exports. Almost half of our shipments in 1983 were outside the quotas. Since 1978, our beef sales under the quota have risen from 6,800 tons to 30,000 tons.

With a growth rate of say 5,500 tons per year, our shipments would total over 80,000 tons in 1988. Unless we improve our record in other export markets, Japan would account for 75 percent of US beef exports by the end of this decade compared to 41 percent in 1977.

Concerning your third question, we have made sure that the political leadership understands the symbolic importance of beef and oranges and the priority we attach to these items. In my discussions with Japanese, I have not discerned a consensus effort to link defense and trade issues. In my opinion, they are and should be totally separate and apart from each other.

Domestic political pressure groups are, I believe, very well organized and financed and are still making a major effort to block a mutally satisfactory compromise. as we move into the final stages of negotiations, publicly expressed threats on our side can backfire by forcing those Japanese sincerely trying to work out a settlement to demonstrate that they are not "selling out" to foreign pressure. This could severely limit their negotiating flexibility.

Please feel free to use this letter and my previous letters on the beef issue as public documents if you so desire.

Sincerely yours,

Mike Mansfield

Sincerely,

RGV, deVillafranca

Richard G. deVillafranca
Country Officer
Office of Japanese Affairs

American Farm Bureau Federation

WASHINGTON OFFICE
600 MARYLAND AVE., S.W.
SUITE 800
WASHINGTON, D.C. 20024
AREA CODE 202 - 484-3222

'84 APR -2 AM 11:25

March 30, 1984

Honorable John C. Danforth
Chairman
Subcommittee on International Trade
Committee on Finance
United States Senate
Washington, D.C. 20510

Dear Mr. Chairman:

Although Farm Bureau will not present testimony before your Subcommittee on Monday, April 2, regarding Japanese beef quotas, we thought you might be interested in receiving a copy of a recent letter we sent to the White House on this issue.

If possible, we would appreciate inclusion of our letter in the hearing record.

Sincerely,

John C. Datt
Secretary and Director
Washington Office

Enclosure

American Farm Bureau Federation

WASHINGTON OFFICE
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SUITE 800
WASHINGTON, D.C. 20024
AREA CODE 202 - 484-2222

February 9, 1984

Mr. Jay Steven Rhodes
Assistant to the Vice President
Old Executive Office Building
Room 285
17th Street and Pennsylvania Avenue, N.W.
Washington, D.C. 20500

Dear Mr. Rhodes:

This is in response to your request for Farm Bureau's thoughts on trade negotiations with Japan as they relate to better market access for U.S. agricultural products.

First, we would like to say that we have given strong support to the Administration's tough line with the Japanese for liberalization of their quotas, tariffs and other trade impediments affecting over 20 U.S. agricultural exports to that country.

In 1982, I led a group of State Farm Bureau Presidents to Japan to help reinforce the Administration's negotiating efforts. Our message to the Japanese leaders in government, industry and agriculture was rather straight forward: "Japan is an efficient producer of quality televisions, cameras, autos, trucks and other industrial products. Farm Bureau thinks you should have access to the American market for your products, and we will resist protectionist measures against them. On the other hand, American farmers are efficient producers of agricultural commodities, and we believe you should accord us better access to your markets and help us against Japanese protectionism."

As you know, the Japanese enjoy an incredible trade surplus with the United States. Therefore, we do not feel that it is asking too much to continue to press them for complete liberalization of their quotas, tariffs and other trade impediments on agricultural imports. It has been quite some time since the "wisemen" of the Japan/United States Economic Relations Council recommended elimination of trade quotas; yet, quotas remain on over 20 agricultural commodities.

Farm Bureau recommends that our Government press for complete trade liberalization by the end of a five or ten year period with steady progress assured by phased, annual liberalization increments.

We believe that there should be an immediate increase in the beef and citrus quotas; say, on the order of a doubling or tripling of the present quotas. The proposed increases by the Japanese that we have heard reported in the press are far too conservative in view of their trade surplus position and other factors.

Furthermore, the protectionism with which the Japanese surround their cigarette market is unjustified. In spite of previous negotiating efforts, the Japanese duty and other trade restrictions on U.S. cigarettes continue to result in a U.S. share of less than 2 percent of the Japanese cigarette market. Complete, phased liberalization should be vigorously sought by the Administration on U.S. cigarettes. Success in increasing the market share for U.S. cigarettes, a high value product, would considerably improve the trade balance between Japan and the United States.

Farm Bureau is fearful that the Japanese will try to get off the hook on agricultural trade issues by being more forthcoming with their defense appropriations and more liberal concessions on telephone and other industrial concessions while offering miniscule concessions on agriculture. We must not let them get away with such proposals.

Mr. Rhodes, we appreciate your request for Farm Bureau views, and we offer our continued strong support of the Administration's tough negotiating efforts with the Japanese.

Sincerely,

Robert B. Delano
President

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Statement for the Record to the Senate Finance Committee

April 2, 1984

Hearing on Japanese Beef Quotas

Consumers for World Trade (CWT) is a national, nonprofit, membership organization, established in 1978. CWT supports expanded foreign trade to help promote healthy economic growth; provide choices in the marketplace for consumers; and counteract inflationary price increases. CWT believes in the importance of increasing productivity through the efficient utilization of human and capital resources. CWT conducts its educational programs to keep American consumers informed of their stake in international trade policy and speaks out for the interests of consumers when trade policy is being formulated.

Consumers for World Trade welcomes the agreement with Japan which provides for increased Japanese imports of American beef and oranges. We welcome it for several reasons. It is a small step toward the liberalization of trade in agricultural products, a sector afflicted with a profusion of trade barriers. It will double exports of U.S. beef to Japan. It will benefit the Japanese consumer: without the increase in import quotas, beef would have become even more expensive in Japan than it already is. And, hopefully, the agreement will lay to rest for awhile the threats of American retaliation for which the American consumer would pay the bill.

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The Japanese consumer has cause for regret that Japan did not see its way to removing the import quotas altogether. The agreement will increase total Japanese beef imports from all sources by only 15% in four years and total Japanese beef supplies by less than 5%. Japanese economists have shown that if beef quotas were eliminated and replaced by a tariff, it would be possible to reduce retail beef prices by 30%, increase consumption by 40% and increase imports by 150% -- all this without adverse effects on Japanese producers and at no cost to the Japanese treasury. All that would be required is a shift toward less restrictive methods of agricultural support and protection.

CWT would be remiss in discharging its responsibilities if it did not take this opportunity to remind the Congress of our own country's restrictions against beef imports. As we have pointed out repeatedly, U.S. restrictions raise the price of hamburger-type beef and thus affect primarily low-income consumers in this country. They also set a bad example for other importing countries at a time when the U.S. is trying to expand its exports of quality beef. We urge the Congress to repeal the meat import act which is protecting an industry that is quite capable of taking care of itself in competition with other suppliers.

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